



# 2015/16

## ANNUAL REPORT



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The LRA National Debate Competition is designed to enhance students awareness and knowledge on tax matters. Here are the 2015 Champions – Soofia English Medium School.



In the fight against corruption: The LRA, DCEO and LMPS joined forces to commemorate the International Anti-Corruption Day

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The Right Honourable Prime Minister Dr. Pakalitha Mosisili offering a speech on International Anti-Corruption Day

# LIST OF ABBREVIATIONS

<b>ASYCUDA</b>	Automated System For Customs Data
<b>ATAF</b>	The African Tax Administration Forum
<b>BEDCO</b>	Enterprise Development Corporation
<b>BURS</b>	Botswana Unified Revenue Services
<b>CBL</b>	Central Bank of Lesotho
<b>CG</b>	Commissioner General
<b>CIT</b>	Company Income Tax
<b>CSI</b>	Corporate Social Investment
<b>EOI</b>	Exchange of Information
<b>ETPM</b>	Enterprise Taxation and Policy Management System
<b>EXCO</b>	Executive Committee
<b>FBT</b>	Fringe Benefit Tax
<b>GDP</b>	Gross Domestic Product
<b>GOL</b>	The Government of Lesotho
<b>IIT</b>	Individual Income Tax
<b>IMF</b>	International monetary Fund
<b>IT</b>	Income Tax
<b>LCCI</b>	Lesotho Chamber of Commerce and Industry
<b>LMPS</b>	Lesotho Mounted Police Service
<b>LRA</b>	Lesotho Revenue Authority
<b>MCC</b>	Millennium Challenge Corporation
<b>MOU</b>	Memorandum of Understanding
<b>nCEN</b>	National Customs Enforcement Network
<b>NSDP</b>	National Strategic Development Plan
<b>NUL</b>	National University of Lesotho
<b>OECD</b>	Organization for Economic and Development
<b>OSAS</b>	Organisational Structure Alignment to Strategy
<b>OT</b>	Other Taxes
<b>PAYE</b>	Pay As You Earn
<b>PIT</b>	Private Income Tax
<b>SACU</b>	Southern African Customs Union
<b>SADC</b>	Southern African Development Community
<b>SARS</b>	South African Revenue Services
<b>SOPs</b>	Standard Operating Procedures
<b>SSA</b>	Sub-Saharan Africa
<b>US</b>	United States of America
<b>VAT</b>	Value Added Tax
<b>WCO</b>	World Customs Organization
<b>WHT</b>	Withholding Taxes



# STATEMENT BY THE BOARD CHAIRMAN



The 2015/16 year was a successful one for the Authority with respect to the attainment of its key and overarching objective of revenue collection. The Authority was tasked by the Government of Lesotho to collect **M5, 758.73 Million** during the reporting period. This performance target was exceeded by some M102 million or 2 percent with M5,861.47 million having been remitted to the Government of Lesotho.

It is gratifying to note that this performance was achieved in a very difficult economic environment of decelerating growth, accelerating inflation, severe currency depreciation and one of the worst drought conditions ever experienced by the country and the sub-region.

Several factors were responsible for this feat. First, the sustained and vigorous efforts of the Authority staff from the Executive Team to all the ranks and cadres drove this performance. I thank them and congratulate them for achieving and exceeding the set collection target. Second, the Taxpayer community through cooperation

and compliance were the biggest contributors and their status as our most important stakeholder is thoroughly deserved. Third, the wholesale modernization program that is being implemented is beginning to bear fruits in the form of improved operational efficiency.

The Board continued to exercise its oversight role on the affairs of the Authority. The reporting period was characterized by reviews of several governance instruments and operational policies of the Authority. The mid-term review of the 2014/15 to 2018/19 strategic plan was also undertaken. The risks that the Authority is managing also received vigilant attention of the Board on an on-going basis as did the overall control environment through regular tracking of resolving audit issues identified by various audit reports. I thank my colleagues in the Board for their selfless dedication in this regard.

The Commissioner General, Mr Thabo Letjama left the service of the Authority after six successful years at the helm. I place on record, on behalf of the Board,

sincere appreciation of the work he has done over the years and wish him the very best in his next challenge. He leaves the organization in a strong position to continue aiming for excellence and non-negotiable effectiveness in delivering its mandate. Until the new CG is appointed, Advocate Realeboha Mathaba has been holding the fort as the Acting CG. His availability and willingness to serve in this strategic and otherwise very challenging role is gratefully appreciated.

Looking ahead, there is not much suggesting that the economic conditions we worked under this year will change in the coming year. The SACU revenue, which has accounted for more than half of the Government revenue, is expected to decline by more than 20 percent and with deteriorating growth outlook for the South African economy the recovery prospects remain misty. Despite all that, our work has already been cut out with the task to grow tax revenue by at least 12.3 percent. This calls for renewed motivation on the part of our Management and staff coupled with an increased sense of responsibility from the Taxpayers.

I conclude by acknowledging and thanking the support of the Honourable Minister of Finance, Dr 'Mamphono Khaketla, as the Authority navigates slippery slopes and relentless headwinds posed by the state of the economy.

Mr. Powell Lehlomela Mohapi  
Board Chairman

# STATEMENT BY THE ACTING COMMISSIONER GENERAL



Following the resignation of the former Commissioner General, Mr. Thabo Letjama, I was given the opportunity to act in the Commissioner General's office, for which I am deeply grateful.

The LRA's 2015/16 performance is reported against a backdrop of a declining economy, both globally and locally. Despite this, the LRA exceeded its target by M102 million. This performance was made possible by the continuous improvements that the LRA has made over the past couple of years especially in making it easier for Taxpayers to comply. Some of these improvements have included the use of account representatives who act as Taxpayer relationship managers for medium and large Taxpayers, and vigorous Taxpayer education efforts. This was coupled with intense compliance management initiatives which enabled the Authority to collect from some Taxpayers who had been non-compliant in the past.

During the period under review, the Authority has made immense strides in the implementation of its 2014/19 strategy. Under the LRA modernisation agenda, the Customs system, ASYCUDA, which was piloted in Maputsoe in 2014/15, was rolled out to all the other remaining

commercial border posts, including Moshoeshe I International Airport and Maseru Station. These rollouts did not go without hiccups. Some of the challenges included stability of the system and stakeholder preparedness. Enhancements on the system are continuously being made to improve stability. Stakeholder management efforts including retraining of clearing agents have been undertaken.

In addition, additional modules of the new tax system, ETPM, were rolled out, with only the one module remaining to be rolled out in 2016/17 financial year. During the period under review, a compliance model and program were developed.

Looking ahead, the LRA has an increasingly daunting task to maximise domestic revenue in order to compensate for the declining SACU revenues. Against this background, and in line with the LRA strategic management policy, the Authority reviewed its current strategy during the period under review. The review also took into consideration national priorities and international obligations. Some of the key priorities ahead include extending the tax net to the traditionally difficult-to-tax small

and informal Taxpayers, the provision of electronic means for Taxpayers to interact with the LRA and continuing to capacitate staff.

I would like to acknowledge the members of the LRA Board for their counsel and guidance that helped to keep us focused on carrying out our mandate so well this year. I would also like to thank my fellow Executive Committee members for the unwavering support and cooperation I received during the time that I have been the Acting Commissioner General, and for joining me in providing the direction and leadership to see to conclusion initiatives as they were envisioned. This is a true reflection of the team effort that has been enshrined in our corporate values as an organisation, and for that I am humbled.

The performance of the LRA would not have been possible had it not been for the commitment and drive of its staff in serving the nation and delivering results under very trying circumstances. For that I am sincerely grateful.

My gratitude also extends to the Government of Lesotho, and especially the Honourable Minister of Finance, Dr. 'Mamphono Khaketla, for her thoughtfulness, firm support and cordial relationship that has spurred us on as an organisation.

While a fight against tax evasion continues, I must acknowledge our Taxpayers who, despite the trying times, continued to meet their tax obligations. We look forward for their customary support and patriotism in these economically challenging times.

**Adv. Realeboha Mathaba**

Acting Commissioner General



# 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:

**"An agency of the Government responsible for the assessment, collection and receipt of specified revenue and shall operate under the general supervision of the Minister of Finance."**

### ***THE LRA IS RESPONSIBLE TO:***

**Administer and enforce of the following revenue legislation:**

The Customs and Excise Act No. 10 of 1982 as amended;

- The Income Tax Act No. 9 of 1993 as amended; and
- The Value Added Tax Act No. 9f of 2001 as amended.

- Promote voluntary compliance with tax laws;
- Take such measures as may be required to improve the standards of service given to taxpayers with a view to improving efficiency and effectiveness and maximising revenue collection;
- Take such measures as may be required or necessary to counteract tax fraud and other forms of fiscal evasion; and
- Advise the Minister on matters of revenue policy and matters relating to the administration and collection of revenue under the tax laws.



An intervention by the Lesotho Revenue Authority (LRA) Anti-Smuggling Unit and Customs Officers on the importation of live animals into Lesotho: An importer conveys livestock through one of the major commercial border posts namely Van Rooyen's Gate. The LRA Anti-Smuggling team stops the truck for clearance inspections to ensure that documentation corresponds with the consignment

## 1.2 GOVERNANCE

### 1.2.1 LRA BOARD

The Authority is governed by a Board comprised of representatives from the public, parastatal and private sectors, and the Commissioner General. The Board is appointed by the Minister of Finance in accordance with the LRA Act No. 14 of 2001. The Board sits on a monthly basis and has three sub-committees which sit on a quarterly basis and help it execute its mandate.

Table 1 below sets out the composition of the Board sub-committees and their mandates.

**Table 1: LRA Board committees and responsibilities**

Committee	Responsibilities
Finance and Audit Committee	The committee provides oversight on the financial management of the Authority including ensuring the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The committee is also responsible for risk management and oversight of the internal audit function.
Human Resource Remuneration Committee	The committee assists the Board with oversight on human resources management, recruitment processes for executive management, including the Commissioner General, remuneration matters and general staff welfare matters.
Information Communication and Technology Committee	The committee is responsible for providing advice to the Board with regard to monitoring the adequacy, efficiency and effectiveness of the LRA's ICT policies and investments, in as much as these may impact the strategy, financial performance and risk profile of the LRA. The committee is also responsible for ensuring the alignment of ICT investments with the overall LRA strategy.

# LRA BOARD MEMBERS





**MR LEHLOELA POWELL MOHAPI**  
(Chairman of the Board)



**MRS NEO PHAKOANA FOULO**



**MRS TS'ERELETSO MOJELA**



**MRS MOTENA TSOLO**



**ADV. 'MAMOTS'ELISI KHIBA**



**ADV. LINDIWE SEPHOMOLO K.C.**



**MR. KELEBONE LEISANYANE**



**Adv. REALEBOHA MATHABA**

## 1.2.2 LRA EXECUTIVE

The operations of the LRA are governed by an Executive Committee (EXCO) which is made up of heads of divisions and chaired by the Commissioner General. The EXCO has the following sub-committees which help it carry out its mandate:

**Table 2: LRA EXCO sub-committees and responsibilities**

Committee	Responsibilities
Strategic Management Committee	The committee is responsible for advising EXCO with respect to matters concerning the development and implementation of the LRA strategy and annual business plans including supporting budgets and manpower plans. The committee is also responsible for providing oversight of the enterprise risk management process.
Remuneration Committee	The committee is responsible for overseeing the remuneration, bonus and benefits policies and practices in the Authority.
Assurance Committee	The committee is responsible for advising EXCO in relation to the effective governance of the Authority. The committee is also responsible for ensuring the implementation of internal audit recommendations and the alignment of the LRA's policies to strategy.
Tender Committee	The committee is responsible for making necessary procurement decisions in order to ensure that goods and services procured in the LRA achieve value for money.
Revenue Management Committee	The committee's mandate is to oversee effective management of Taxpayers' compliance.

LRA EXCO MEMBERS

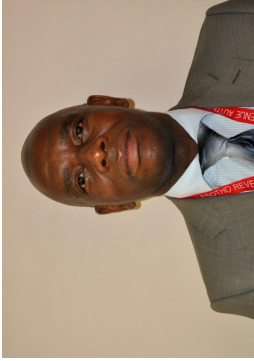




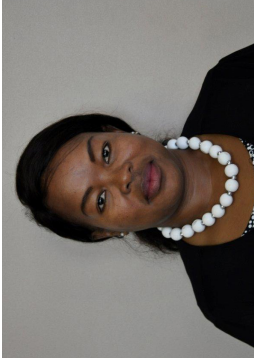
**Adv. REALEBOHA MATHABA**  
Acting Commissioner General and  
Commissioner Enforcement



**MR. MANGANGOLE TSIKINYANE**  
Chief Financial Officer



**MR. THABO MOLEKO**  
Commissioner Domestic Taxes



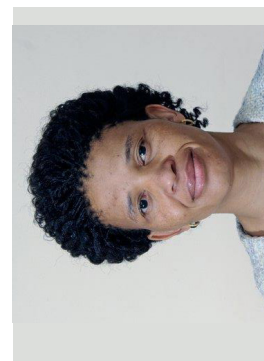
**MRS. MAKALI LEPHOLISA**  
Commissioner Customs



**MRS. IDIA PENANE**  
Chief Planning and Modernisation  
Officer



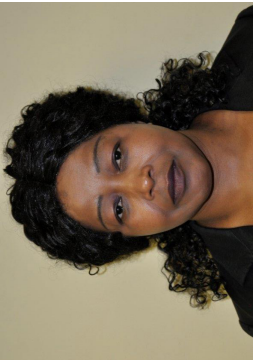
**MRS. MASEIPATI MAKHELE**  
Chief Human Resources Officer



**MRS NTEFELENG TSIBOHYO**  
Chief Assurance Services Officer

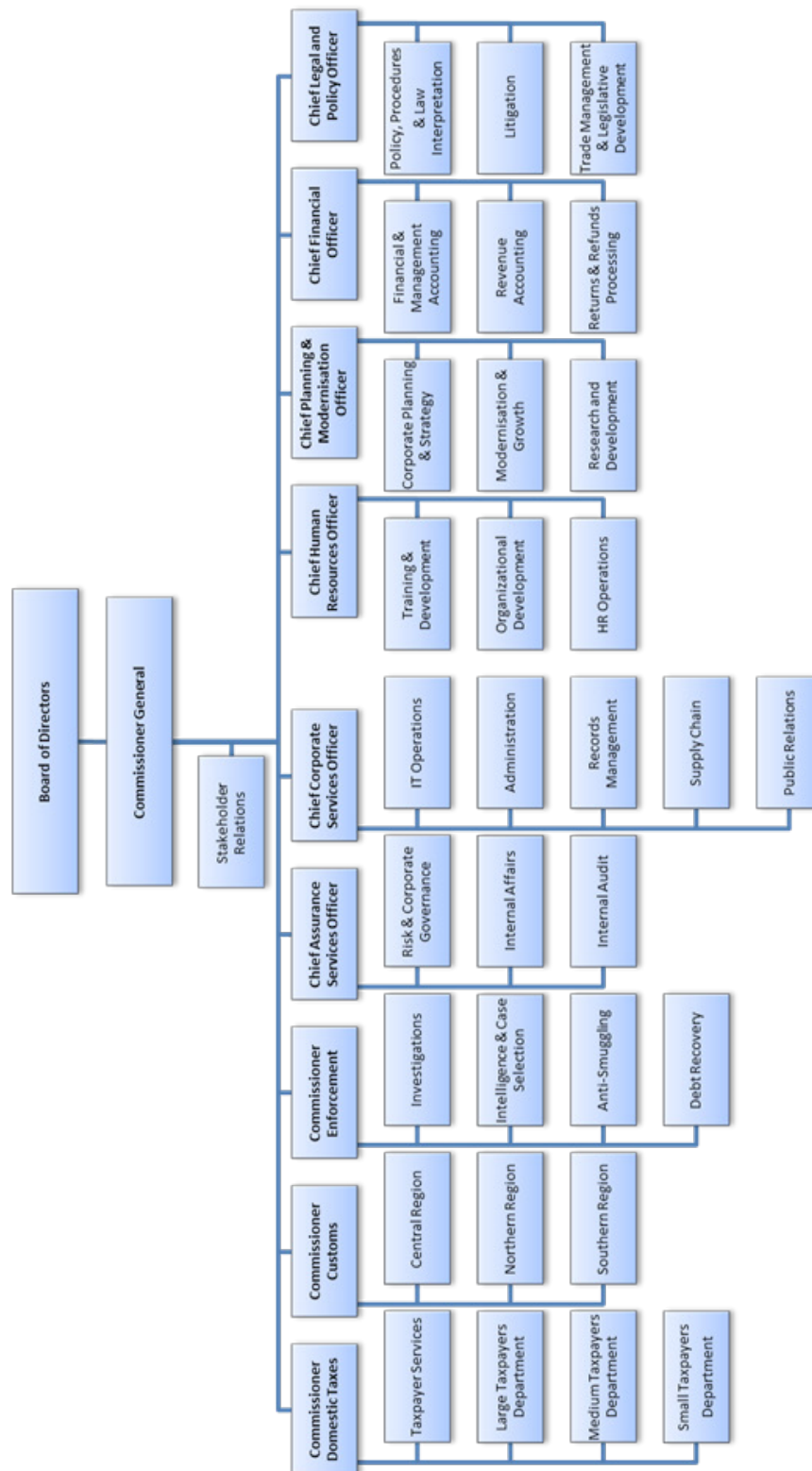


**MR. SETH MACHELI**  
Chief Legal and Policy Officer



**MRS. MANNEHENG MOPELI**  
Chief Corporate Services Officer

# 1.3 ORGANISATIONAL STRUCTURE





## 1.4 VISION

To be a leading performance oriented revenue administration, characterized 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

In order to ensure that activities carried out by the LRA staff enable the achievement of the strategy, the LRA has identified the following values to guide behaviours throughout the organisation:

- Teamwork;
- Innovation;
- Integrity;
- Service Excellence;
- Accountability.

## 1.7 BUSINESS CONCEPT

In order to deliver against the vision and mission, the LRA has developed the following business concept which will serve as a “strategic filter” for management to use in shaping all strategic business decisions:

- Our strategy is to respond to the revenue collection, border management and advisory services needs of Government, stakeholders and Taxpayers through programs that are fast, efficient and cost effective thus enabling them to pleasantly, easily and conveniently fulfil their obligations to contribute to the stability and development of Lesotho.
- We will develop an intimate understanding of the needs of our markets, including government, strategic partners, development partners, tax agents and Taxpayers through appropriate strategic partnerships and engagement forums in order to respond with innovative and fit for purpose solutions.
- We will drive distinctive relevance by bringing about positive outcomes that surpass expectations of the public whom we serve by continuously optimising and growing our revenue through:
  - Researching, designing, developing and implementing effective, agile Taxpayer centric revenue collection, border management and advisory service solutions;
  - Leveraging our knowledge of tax and customs laws, treaties and conventions as well as the use of Information Technologies to better advise, enhance compliance and educate Taxpayers;
  - Developing a competent workforce, implementing efficient and seamless processes, specialised and decentralised services, and building enabling infrastructure in order to offer expeditious and quality services to Government, stakeholders and Taxpayers;
  - Becoming more influential and prominent in national and international forums to ensure our voice is clearly heard in Government, legislation, policy and developmental initiatives;
  - Relentlessly addressing non-compliance to ensure that everyone meets their obligations to pay their taxes;
  - Embedding project management principles into the organisation at all levels through education, and resolute implementation of processes to drive effective prioritisation, resource allocation and execution;
  - Developing leadership throughout the business to enable effective problem resolution, decision making, implementation and accountability for results;
  - Managing the change within the organisation to ensure all stakeholder needs are met.
- We will make the LRA the best place to work for in Lesotho, by building and maintaining an exciting environment which encourages commitment and a “can do” attitude, characterised by an entrepreneurial culture where there is freedom with responsibility and a belief in the achievement of the impossible.

## 1.8 AREAS OF EXCELLENCE

In order to deliver against the business concept the LRA has identified the following “Areas of Excellence” which are the key strategic capabilities required to ensure the successful delivery of the strategy.

### 1.8.1 Market Knowledge

We must 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.

### 1.8.2 Stakeholder Management

We must excel at building lasting relationships with our stakeholders including Government, strategic partners, development partners, agents and Taxpayers that are formalised, transparent, add value and are conducive to business growth and improved revenue collection.

### 1.8.3 Service Excellence

We must 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.

## 1.9 CORPORATE CRITICAL ISSUES

In order to successfully implement the strategy, the LRA has identified critical issues which are specific action programs that shall to be undertaken during the period of five years, 2014-19.

The following critical issues have been prioritized for implementation in the medium term:

- Modernize LRA’s processes and systems;
- Develop and implement a staff capacity building and retention program;
- Entrench a culture of accountability throughout the organization;
- Develop and implement a compliance model;
- Build change management capability;
- Improve LRA infrastructure.



# PART 2: ECONOMIC PERFORMANCE

## 2.1 GLOBAL ECONOMY

The global economic environment remained subdued in 2015 falling short of expectations. The slow growth was exacerbated by the slowdown in China's economy which has contributed 35

percent to global economic growth in the past five years and is expected to remain at 30 percent until 2020. Global trade recorded a meagre 2.8 percent as a result of significant contraction in imports. This

was brought about by China's transition to a new model that relies more on innovation and productivity growth on the supply side and on consumption on the demand side.

## 2.2 SUB SAHARAN AFRICAN (SSA) ECONOMY

In comparison, the SSA enjoyed a robust economic growth of 5 percent in 2014 that was driven by a strong investment in mining and infrastructure and strong private consumption especially in low income countries. However, as a result of lower commodity prices, growth started to decelerate

slightly in oil exporting African countries which resulted in the SSA regional slower growth rate of 4.5 percent in 2015.

In Nigeria and South Africa, which account for more than half of the Africa's GDP, growth also decelerated in 2015 as a result of

amongst others falling commodity prices. Nigeria's real GDP growth was expected to fall to 4.0 percent in 2015 from 6.3 percent in 2014 and only recover to 4.3 percent in 2016. South Africa is expected to only grow by around 1.4 percent in 2016.

## 2.3 DOMESTIC ECONOMY

Lesotho's economy was adversely affected as the region struggled to survive the economic turbulence of dwindling commodity prices, escalating inflation, currency volatility and weather shocks, notably drought.

The desired real GDP growth target of 5 to 7 percent per annum, as stipulated in the NSDP remains

a high mountain to climb. The projected economic growth in real terms declined to 2.9 percent in 2015 following a 3.6 percent growth in the preceding year.<sup>1</sup> This was the lowest GDP growth since 2004/05.

<sup>1</sup> CBL (March 2016). 58<sup>th</sup> Monetary Policy Committee statement.

The Southern African Customs Union (SACU), which Lesotho is a member of, was adversely affected by the slow economic growth in South Africa and a decline in imports, resulting in a M7, 395.35 million deficit in the SACU common revenue pool. This resulted in an 18 percent (M988 million) deficit in Lesotho's share.

## 2.3.1 SECTORAL PERFORMANCE2

### 2.3.1.1 PRIMARY SECTOR

The primary sector, which comprises of the mining and quarrying, and agriculture sub-sectors contracted by 3.8 percent in 2015 compared to a 9.3 percent growth registered in 2014. This was caused by weak performance in the agriculture, forestry and fishing, and mining and quarrying

subsectors. The agricultural sub-sector was negatively affected by the crops sub-sector which was mainly impacted by drought. This resulted in a decline in the area planted in the 2014/15 agricultural year hence less production.

The mining and quarrying

subsector declined by 3.9 percent in 2015 compared to a robust growth of 15.5 percent in 2014. This decline was attributable to reduced diamond sales, weakened diamond prices per carat and a decline in the demand for diamonds which was caused by the slowdown in Chinese retail demand and high polished diamond inventory levels.

### 2.3.1.2 SECONDARY SECTOR

The secondary sector, which comprises of manufacturing, electricity and water, and building and construction, grew at a rate of 3.9 percent in 2015 compared to a decline of 2.6 percent in 2014. The good performance of the sector was due to improved performance by all the sub-sectors within the secondary sector.

The manufacturing sub-sector grew by 3.5 percent in 2015

as compared to a growth of 1.8 percent in 2014 driven by food products and beverages, textiles, clothing, footwear and leather, and other manufacturing activities.

The electricity and water sub-sector grew by 3.5 percent in 2015 as compared to a growth of 1.4 percent in 2014. The sector was boosted by the water and electricity sub-sectors which recorded a growth of 3.2 percent

and 4.1 percent respectively in 2015.

The building and construction sub-sector registered a growth of 4.6 percent in 2015 compared to a decline of 10.0 percent in 2014. The realized growth was attributable to the expansion works which were carried out at Liqhobong mine and the development of private property in Maseru. In addition, ongoing construction and gravelling of both rural and urban roads also contributed to the trend.

### 2.3.1.3 TERTIARY SECTOR

The tertiary sector, which comprises of wholesale and retail trade, restaurants and hotels, transport and communications, financial intermediation, real estates and business services, public administration, education, health and social work, and community, social and personal services grew at a stable rate in 2015.

The sector registered a 4.1 percent growth in 2015 as compared to 4.4 percent growth in 2014. The growth was attributed to good performance by all the sub-

sectors within the tertiary sector.

The health and social work sub-sector registered a growth rate of 4.3 percent in 2015 compared to a decline of 4.1 percent in 2014.

The improvement in the performance of the sub-sector was influenced by the provision of health services to remote areas in the country which resulted from the construction of clinics and health centres under the Millennium Challenge Corporation health projects.

The transport and communication sub-sector grew at 7.6 percent in 2015 compared to the 6.7 percent registered in 2014. The growth was attributed to the 8.7 percent growth by the post and telecommunications services in 2015 compared to 5.5 percent in 2014. The growth in the sub-sector was due to growth in the usage of mobile money services.

The wholesale and retail subsector moderated to 4.5 percent in 2015 compared to a significant growth of 10.1 percent in 2014.

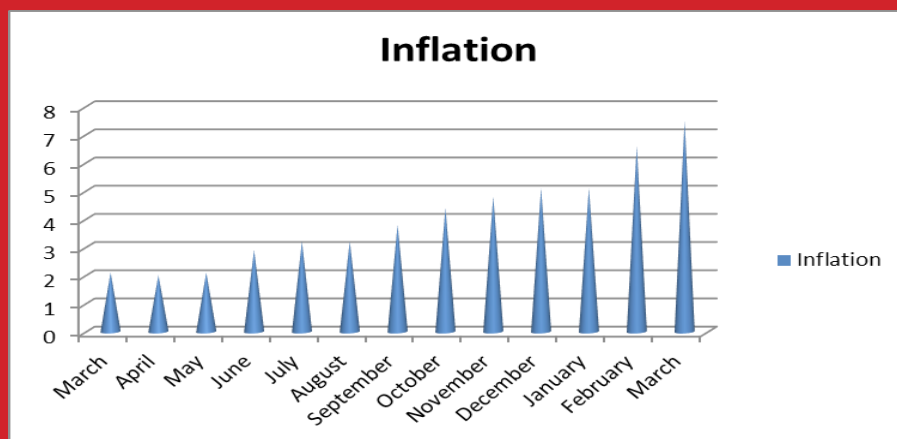
## 2.4 PRICE DEVELOPMENTS

### 2.4.1 INFLATION

As a major food importer, the inflation in Lesotho is driven mostly by food prices, and an inflation spill over from South Africa. The increase in food prices in South Africa was mainly exacerbated by the drought that hit the region during the period under review. This caused a decline in the production of maize which led to decreased supply and therefore increase in prices.

Figure 1 below shows the domestic inflation fluctuations from March 2015 to March 2016.

*Figure 1: Inflation rates March 2015-March 2016*



### 2.4.2 COMMODITY PRICES

Metal prices have declined steadily since early 2011 at an average of about 60 percent. In 2014, China accounted for around 40 percent of the total global demand of metals. China's investment slowdown has therefore had a significant impact on the demand for and prices of metals which are closely related to its investment activities.<sup>3</sup>

### 2.4.3 BRENT CRUDE OIL PRICES

The decline in oil prices continued in 2015 reflecting excess supply of oil due to strong production in members of the Organization of the Petroleum Exporting Countries (OPEC) as well as in the United States and Russia. As an oil importing country, Lesotho similar to South Africa benefitted from the decline in Brent crude oil prices which coincided with the fall in the Loti/ZAR against the US dollar.

### 2.4.4 ROUGH

#### DIAMOND PRICES

Due to the slowdown in economic growth of China and the strong US dollar, the global demand for diamonds plunged leading to a drop in rough diamond prices to US\$145/carats in 2015 from US\$224/carats in 2014.<sup>4</sup> As a result of this decline, the diamond industry registered a slow growth in terms of output compared to 2014.

### 2.5 EXCHANGE RATE

From April 2015 to March 2016 the Loti sharply depreciated by 28 percent against the United States (US) Dollar from M11.98 to M15.37 due to South Africa's macroeconomic developments. The depreciation of the Loti against the US Dollar has had both a positive and negative impact on Lesotho's economy.

On the one hand prices of imported goods increased pushing up inflation and on the other hand, exports became more competitive thereby boosting activity in the tradable goods sector, particularly in the Diamond Mining and Textile and Leather Manufacturing sectors.

<sup>4</sup> KPMG (July 2015). Commodity insights bulletin. Retrieved from <https://www.kpmg.com/ID/en/IssuesAndInsights/ArticlesPublications/Documents/diamond-q4-2014-q1-2015.pdf>.



## 2.6 FISCAL POLICY

The total government budget allocation for 2015/16 was M16, 349.5 million made up of M11, 461.6 million as recurrent expenditure and M4, 887.9 million as capital expenditure. This would be financed through estimated government and donor funds amounting to a total of M15, 321.4 million, thereby resulting into a fiscal deficit of 3.9 percent of GDP. Due to the fact that a large portion of the government expenditure is on recurrent expenses, the government reduced its capital investment by 2.3 percent in 2015/16.



The Lesotho Revenue Authority (LRA) handed over clean portable drinking water project to the community residing around the Sani pass Border area

# PART 3: LRA PERFORMANCE

## 3.1 2015/16 PERFORMANCE HIGHLIGHTS

**Revenue Collection:** The LRA exceeded the set revenue target of 2015/16 by M102.75 million (1.78 percent).

**Full Roll-out of ASYCUDA-World System:** During the course of the year, the LRA continued with the implementation of its new Customs procedures through the use of the ASYCUDA World system.

Following its pilot in Maputsoe in 2014, the system was rolled out to other four remaining commercial border posts in 2015/16.

**Compact Mobile Scanners:** In order to enhance effectiveness and efficiencies of the inspection process at the border posts, two mobile compact scanners were also introduced and deployed during the period.

**Enterprise Taxation and Policy Management System (ETPM):** During the period under review, the LRA worked towards finalizing the implementation of its new Oracle based tax system.

The VAT, PIT and FBT modules were implemented and work completed for the CIT, IIT which will be rolled out in April 2016 together with the ETPM and ASYCUDA payments integration.

**Review of the strategic plan:** The LRA 2014-19 Strategic Plan was reviewed in line with the LRA's Strategic Management policy.

**Compliance Model:** A compliance model and programme were developed during the period under review.

This is aimed at ensuring that the LRA has a structured way of managing Taxpayers' compliance in order to promote voluntary compliance.

**Completion of Caledonspoort border post refurbishment:** The refurbishment of the Caledonspoort border post was completed during the period under review.

## 3.2 REVENUE COLLECTION

### 3.2.1 OVERALL TAX REVENUE PERFORMANCE 2015/16

During the 2015/16 financial year, the LRA remitted a total of M5, 861.47 million against a target of M5, 758.73 exceeding the target by M102.75 million (1.78 percent).

Table 3 below depicts the remitted revenue against the targets for the different tax types in 2015/16.

**Table 3: 2015/16 tax revenue by tax type (in million Maloti)**

TAX TYPE	TARGET	REMITTANCES	VARIANCE	% VARIANCE
Overall Tax Revenue	5,758.73	5,861.47	102.74	1.78%
Income Tax	3,323.00	3,651.29	328.29	9.9%
Personal Income Tax	1,767.30	1,736.50	(30.80)	(1.7%)
Company Income Tax	939.50	1,125.02	185.52	19.7%
Other Taxes	616.20	789.77	173.57	28.2%
Value Added Tax	2,363.30	2,210.18	(153.12)	(6.5%)
Alcohol and Tobacco Levy	72.43	-	(72.43)	(100%)

Figure 2 below shows the 2015/16 quarterly remittances against target.

**Figure 2: Quarterly remittances against target (in million Maloti)**

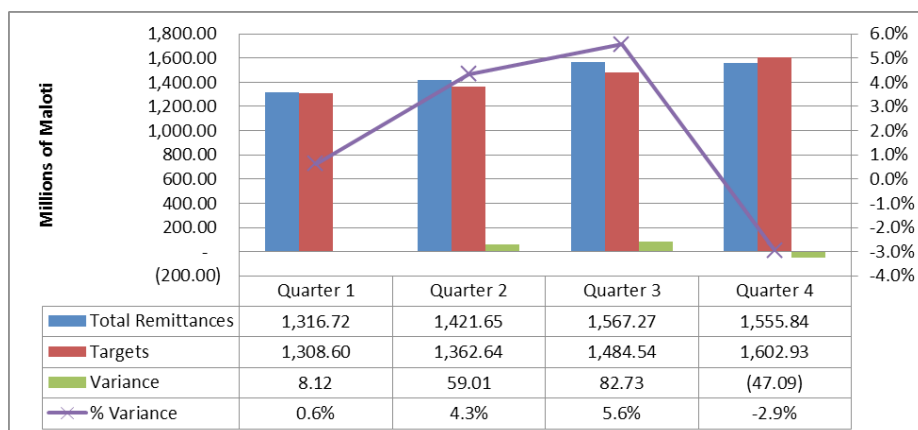


Figure 2 above depicts positive performance in the first three quarters of 2015/16 and negative performance in the fourth quarter. The performance in the first three quarters was due to enhanced collection initiatives. Despite these efforts, poor economic performance in the last quarter negatively affected performance in the quarter.

**Figure 3: Year-on-year overall revenue performance**

**2011/12 to 2015/16 (in million Maloti)**

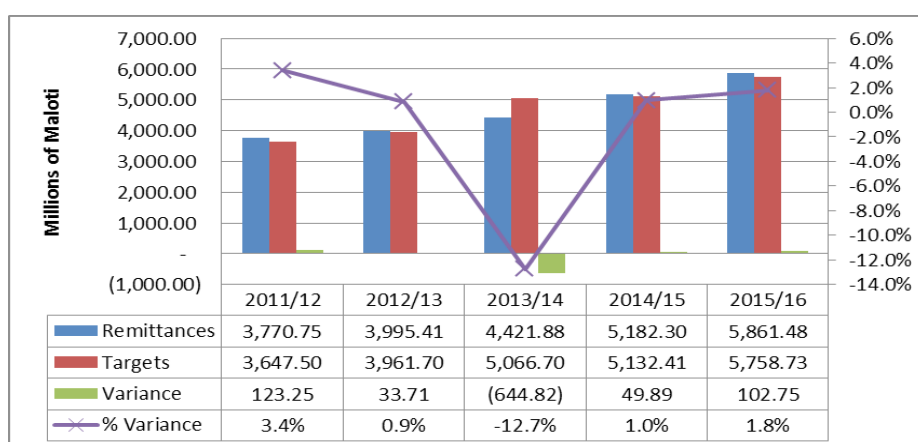
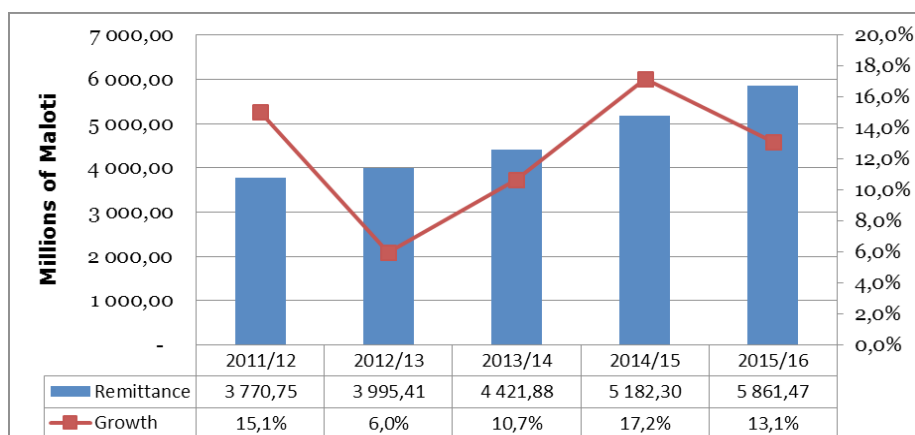


Figure 3 below provides the year-on-year overall revenue performance against target for the past five years. As shown above, the target was only missed in 2013/14. This was due to lower than expected economic performance. The 2015/16 target was exceeded due to the enhanced LRA efficiencies especially in debt collection.

**Figure 4: Year-on-year total remittances**



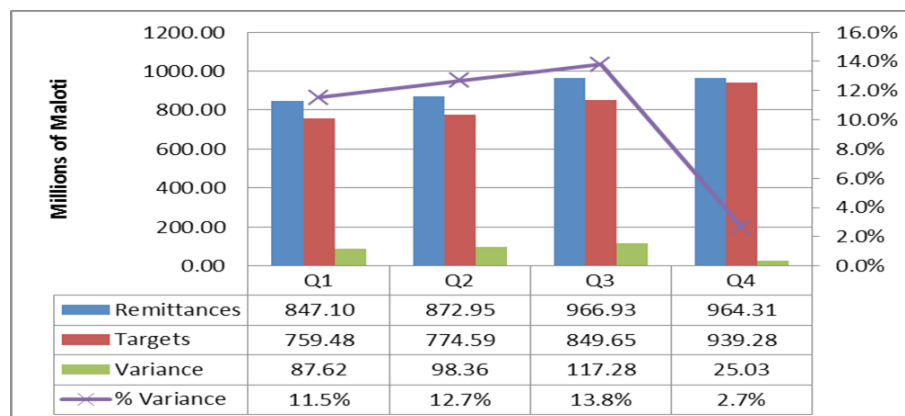
As shown above, the highest growth was in 2014/15. This came as a result of strong performance by CIT and VAT. Growth in 2015/16 declined due to the poor economic performance which largely impacted VAT performance.



## 3.2.2 Income Tax (IT) Performance

Figure 5 below shows quarterly IT remittances for 2015/16.

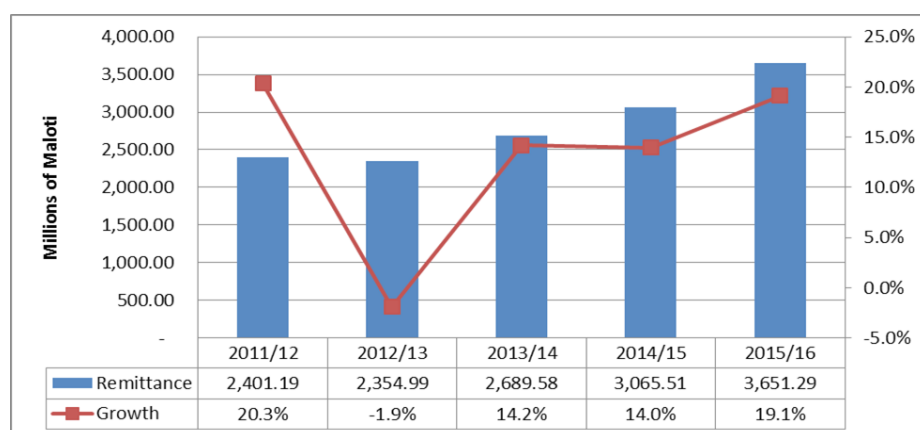
**Figure 5: IT quarterly remittances against target (in millions of Maloti)**



As shown above, Income Tax exceeded the target by large margins in the first three quarters, and exceeded it by a smaller margin in the fourth quarter. The decline in performance in the fourth quarter resulted from poor performance in Personal Income Tax (PIT).

Figure 6 below provides the year-on-year IT performance for the past five years.

**Figure 6: Year-on-year IT performance 2011/12 to 2015/16 (in million Maloti)**

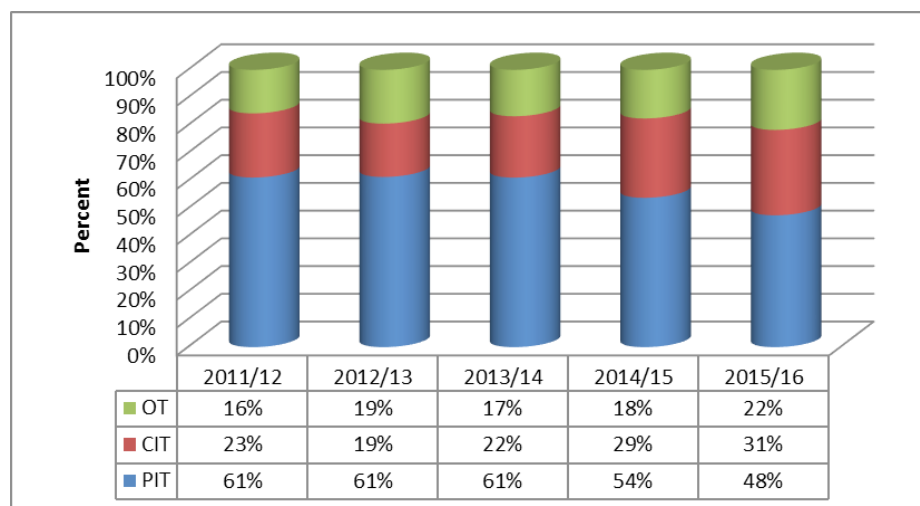


As shown above 2012/13 was the only year where there was a negative growth. This was due to a decline in PIT performance. The growth in 2015/16, which surpassed the growth that had been realized in the past three years, was mainly driven by Company Income Tax (CIT) performance.

### 3.2.2.1 DISAGGREGATED IT PERFORMANCE

Figure 7 below depicts the year on year percentage contribution of the Income Tax components.

**Figure 7: Year-on-year disaggregated IT performance 2011/12 – 2015/16**



As shown above, over the past five years, PIT has contributed the largest share of collections to Income Tax. This contribution has however been lower than previous years having accounted for an average of 65 percent from 2003/04 to 2007/08.

This decline has been due to individual income tax reforms which included: the reduction of the lower bracket income tax rate from 25 percent to 22 percent in 2008/09; the implementation of inflation indexing and the 2012/13 revision of terminal benefits taxation that exempted most a huge percentage of terminal benefits.

In 2014/15 another downward revision of individual income tax rates from 22 percent to 20 percent for the lower income tax brackets, and from 35 percent to 30 percent for the upper income tax brackets, led to a decline of the share of PIT to 54 percent. A strong growth in CIT and Other Taxes (OT) collections, coupled by a decline in its growth, led to PIT's share falling to 48 percent in 2015/16.

Table 4 below shows IT remittances by tax component.

*Table 4: 2015/16 IT remittances by tax component (in million Maloti)*

TAX TYPE	TARGET	REMITTANCE	VARIANCE AGAINST TARGET	% VARIANCE
Income Tax (IT)	3,323.00	3,651.29	328.29	9.9%
Personal Income Tax (PIT)	1,767.30	1,736.50	(30.80)	(1.7%)
Corporate Income Tax (CIT)	939.50	1,125.02	185.52	19.7%
Other Taxes (OT)	616.20	789.77	173.57	28.2%

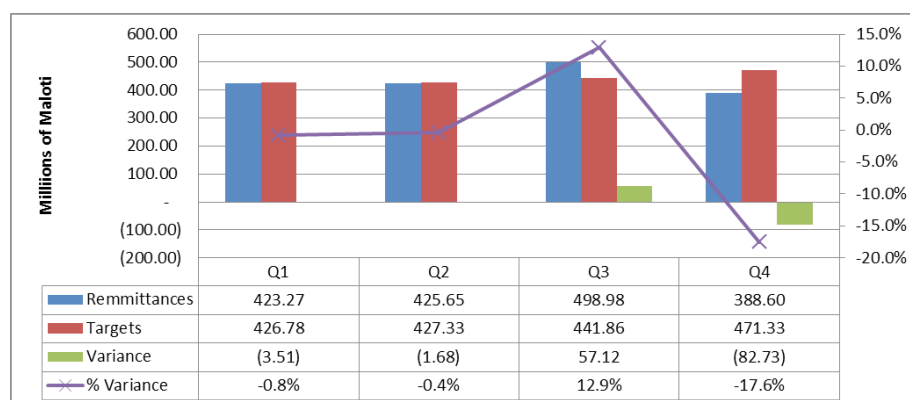
#### 3.2.2.1.1 PERSONAL INCOME TAX (PIT)

PIT is made up of Individual Income Tax (IIT) and Pay as You Earn (PAYE) with IIT contributing 3 percent and PAYE 97 percent. PIT remittances for 2015/16 were below the target by 1.7 percent. This underperformance was caused by the private sector PAYE whose performance took a knock from the poor economic growth of 2015/16. The number of employees of large Taxpayers, whose contribution to private PAYE is 62 percent, fell slightly from 23,419 in February 2015 to 22,915 in February 2016; a two percent decline.

The contribution of the private sector salary component of overtime and bonus payments also declined from 21.6 percent in 2014/15 to 16.7 percent in 2015/16, due to poor economic performance. Overtime and bonus payments, normally have a higher effective tax rate than the basic salary component; their decline therefore also led to the poor private sector performance of PAYE.

Figure 8 below depicts the 2015/16 quarterly PIT performance.

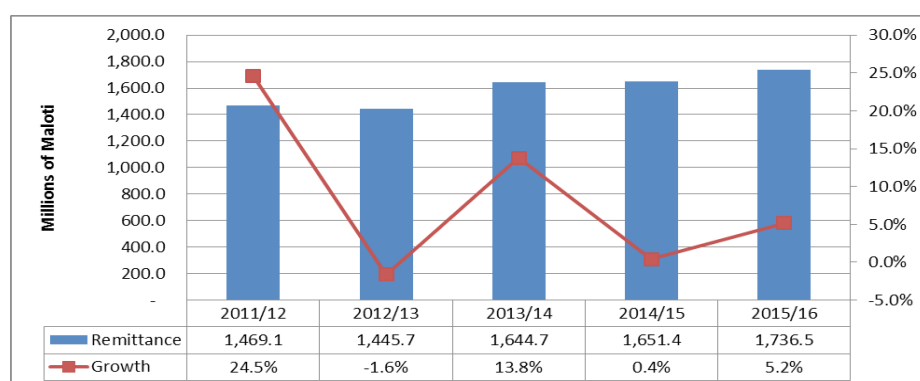
Figure 8: Quarterly PIT performance in 2015/16 (in million Maloti)



As shown above PIT missed the targets in three of the four quarters. The third quarter target was exceeded due to part of the public sector PAYE being paid on the last day of the third quarter while it was targeted for collection in the fourth quarter. This increased third quarter collections at the expense of the fourth quarter.

Figure 9 below shows the year-on-year performance of PIT.

Figure 9: PIT performance 2011/12 to 2015/16 (in million Maloti)



PIT grew by a massive 24.5 percent in 2011/12 due to a settlement of arrears by one public sector institution. With these arrears having been cleared in 2012/13, PIT remittances declined by 1.6 percent. The restructuring of GoL salary scale in 2013/14 led to the growth realised in the same year.

In 2014/15 PIT grew by a slight 0.4 percent as a result of the downward adjustment of individual income tax rates from 22 and 35 percent to 20 and 30 percent respectively. The 5.2 percent growth of PIT remittances in 2015/16 was lower than the projected 7% growth due to poor economic growth.

### 3.2.2.1.2 Company Income Tax (CIT)

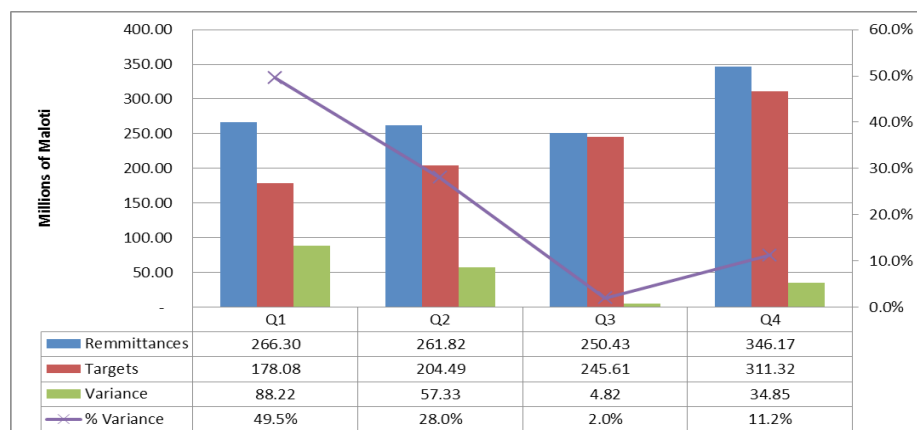
CIT remittances in 2015/16 exceeded the target due to a higher than expected growth in the collections from the mining and the financing and insurance sectors, and the strong growth of telecommunications sector. The decline of diamond prices in 2015 was expected to negatively impact CIT collections from the mining sector, but the weaker Loti against the Dollar absorbed some of the decline.

The use of mobile phones in Lesotho realized a sharp increase in 2014/15, with 2.2 million telephone subscriptions in 2014/15 and about 30 percent of mobile phones having access to internet. This achievement boosted CIT collections from the telecommunications sector.



Figure 10 below shows the quarterly CIT performance.

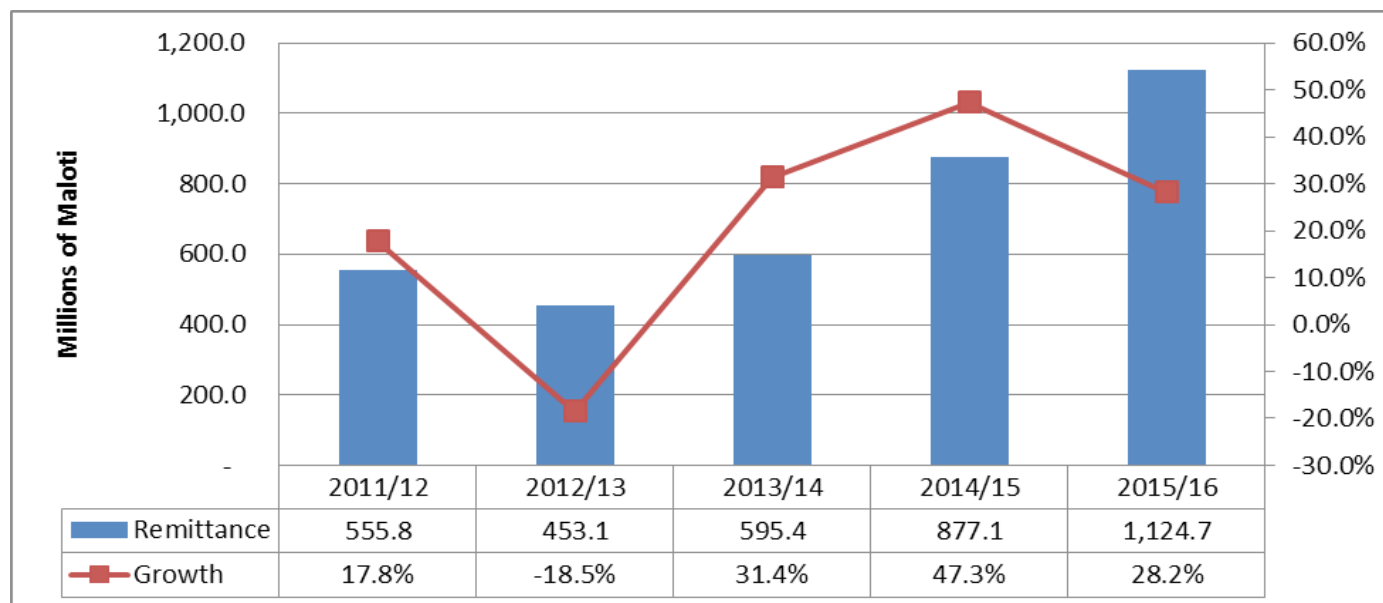
Figure 10: Quarterly CIT performance 2015/16 (in million Maloti)



As shown above CIT collections exceeded the target in all the quarters of 2015/16.

Figure 11 below provides the year-on-year CIT performance for the past five years.

Figure 11: CIT performance 2011/12 to 2015/16 (in million Maloti)



CIT performance in 2011/12 was mainly driven by the mining sector's performance as a result of high diamond prices and declined in 2012/13 due to a decline in diamond prices. In 2013/14 diamond prices had not recovered significantly, but the

CIT growth in that year came from the resurgence of the financing and insurance sector after having dipped in 2010/11 as a result of the financial credit crunch.

Diamond prices became the main driver of the growth in 2014/15.

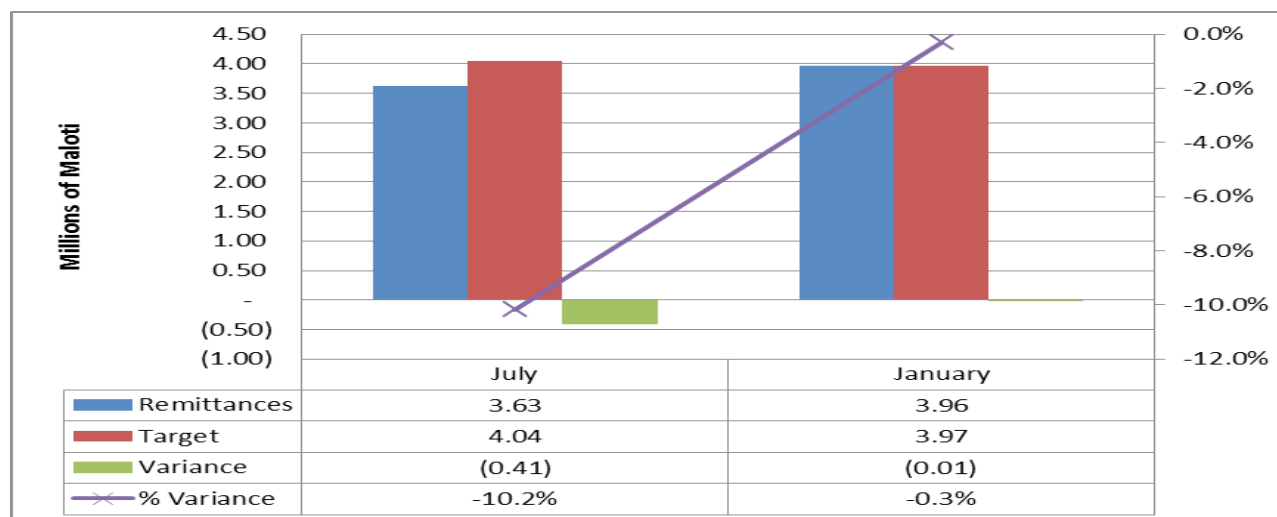
In 2015/16 CIT's continued growth was driven by the mining, financing and insurance and the telecommunications sectors.

### 3.2.2.1.3 Gaming Levy

Gaming Levy missed the target by M0.42 million (5.3 percent) in 2015/16. Gaming Levy is only collected in two months of the year, which is July and January.

Figure 12 below shows Gaming Levy performance in July and January of 2015/16.

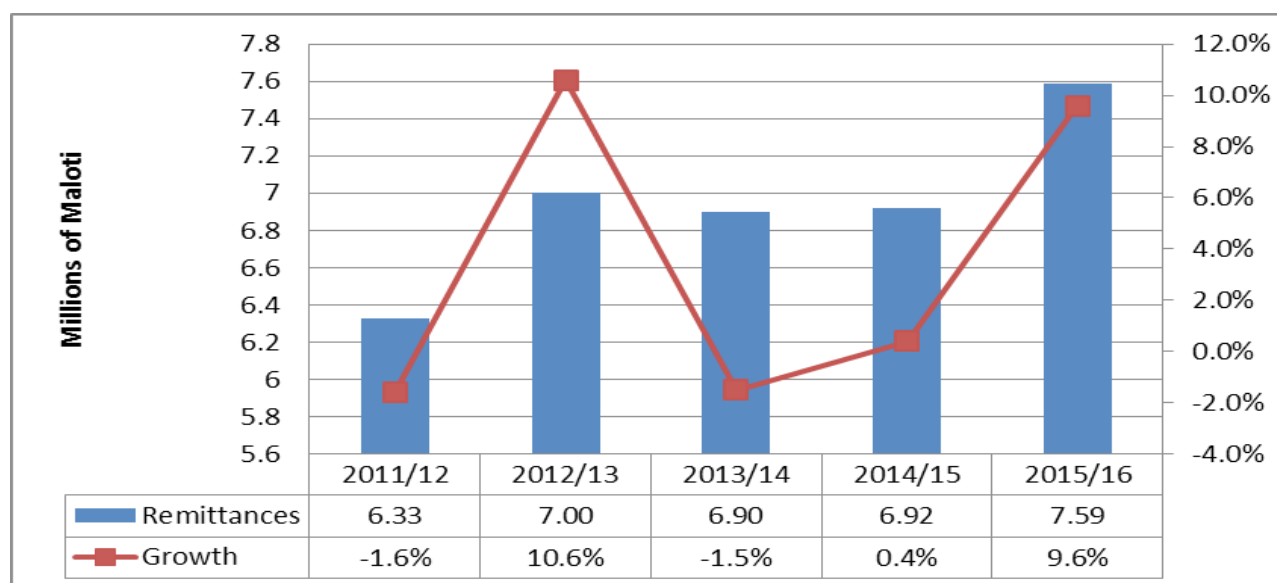
Figure 12: Gaming Levy performance in 2015/16



As shown above, Gaming Levy missed the target both in July and in January 2015/16 with the January one missing it by a very small margin.

Figure 13 below shows performance of Gaming Levy over the past 5 years.

Figure 13: Gaming Levy performance from 2011/12 to 2015/16



Despite missing the target Gaming Levy increased by 9.6 percent, year-on-year, in 2015/16.

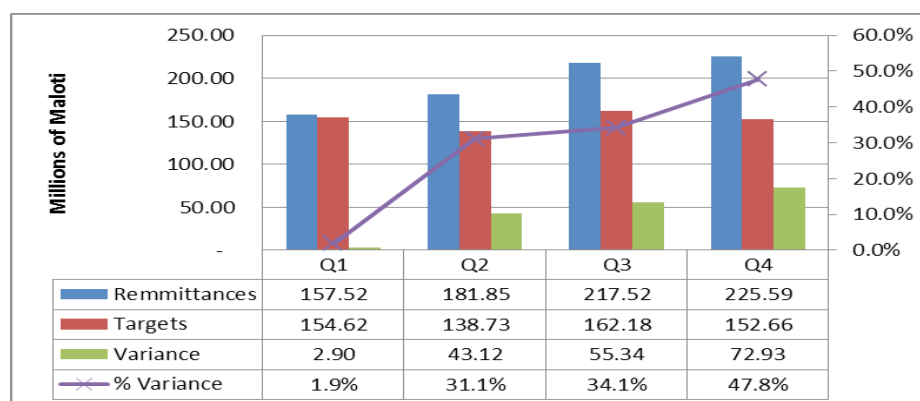
### 3.2.2.1.4 OTHER TAXES (OT)

Other taxes comprise Withholding Taxes (WHT) and Fringe Benefit Taxes (FBT). Historically WHT has contributed 94 percent to OT. This changed to 95.4 percent in 2015/16 with FBT's contribution declining from 6 percent to 4.6 percent.

In 2015/16 remittances from OT exceeded the target by M174.29 million (28.7 percent) as a result of strong performance from the WHT resulting from relatively higher economic performance of the services sectors, and the LRA being more efficient to counter tax evasion in these sectors.

Figure 14 below shows the quarterly performance of OT.

Figure 14: Quarterly OT performance (in million Maloti)

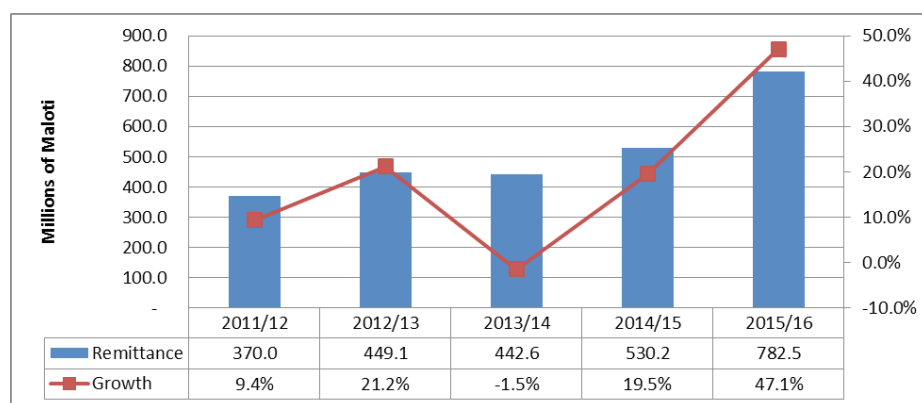


As shown above, OT exceeded the target in all the quarters of 2015/16, displaying a growing quarter to quarter performance. This was due to the fact that the major contributing sectors of WHT which are the mining, construction, telecommunications, financing and insurance, and business services realized a significant growth in 2015/16 despite the generally low economic performance of 2015/16.

OT's performance was also influenced by the growth of FBT which was widespread across almost all sectors and came as a result of increased compliance as more Taxpayers are now becoming aware of the requirement to pay FBT on the benefits that they provide to their employees.

Figure 15 below provides the year-on-year OT performance over the past five years.

Figure 15: OT performance 2011/12- to 2015/16 (in million Maloti)



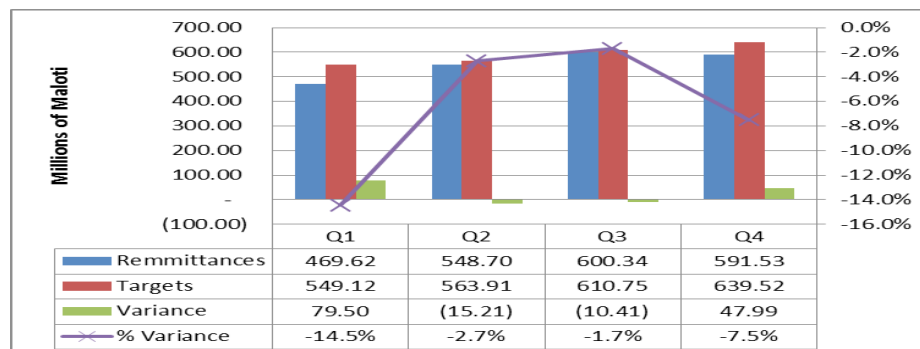
As shown above, OT had a major decline in 2013/14; this was brought by a decline in the construction sector's performance and a slowdown of the mining sector's performance. The growth observed in 2014/15 and 2015/16 was mainly driven by growth of mining, telecommunications, financing and insurance sectors.

### 3.2.3 VALUE ADDED TAX (VAT) PERFORMANCE

In 2015/16, VAT contributed 37.7 percent to the total LRA remittances. This was the lowest contribution since 2011/12, and was brought about by both poor performance of VAT and a strong performance of Income Tax. During this period VAT remittances were below the target by M153.1 million (6.5 percent). This performance was caused by the slow economic growth in 2015/16.

Figure 16 below shows VAT quarterly remittances for 2015/16.

Figure 16: VAT quarterly performance 2015/16 (in million Maloti)



for missing the first quarter target by a high margin was due to mining companies claiming more VAT refunds during the quarter.

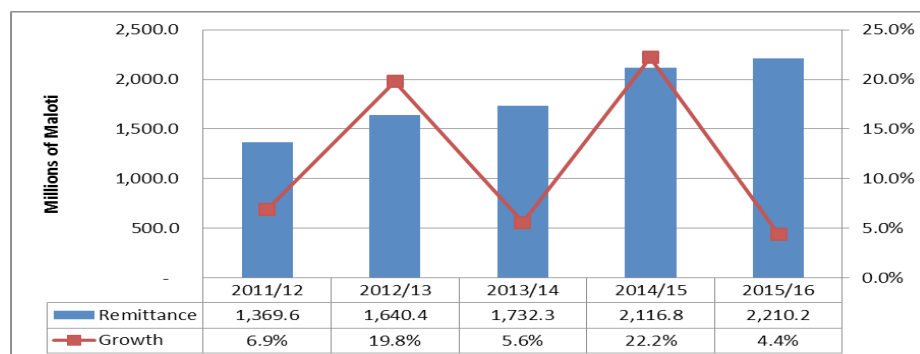
The fourth quarter target was also missed by a high margin due to an increased decline of taxable business sales towards the end the year particularly from the wholesale and retail sector which contributes 55-60 percent of VAT. The sales from this sector declined by 1 percent compared to 2014/15.

As shown above VAT failed to meet the target in all the quarters of the year, with the second and

third quarter targets missed by a smaller margin than the first and fourth quarters. The reason

Figure 17 below provides the year-on-year VAT performance for the past five years.

Figure 17: VAT remittances 2011/12 to 2015/16 (in million Maloti)



As shown above, VAT grew by the smallest margin in 2015/16, this being the lowest growth since 2005/06. This performance was driven by the decline of wholesale and retail sector sales.



### 3.2.3.1 VAT REFUNDS

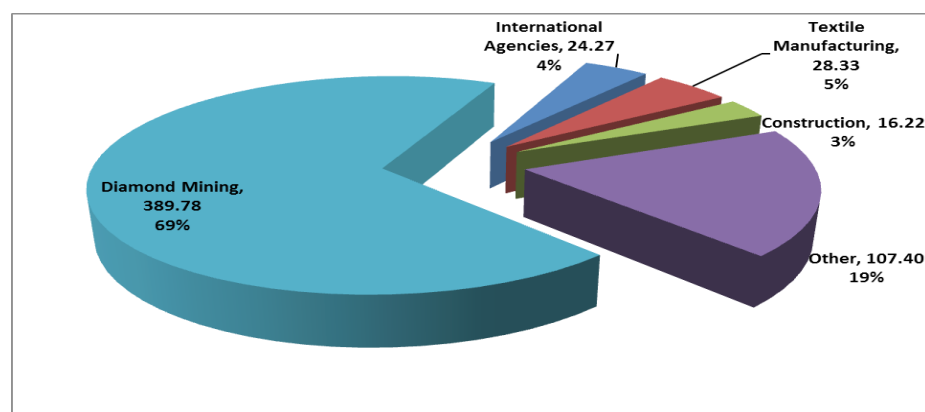
From 2004/05 to 2007/08, the VAT refunds ratio to gross collections averaged 8 percent with the largest share of VAT refunds being paid to the textile and leather manufacturing sector. In 2008/09 the ratio rose to 14.9 percent as a result of the emergence of the diamond sector. The sales of both these sectors are exported hence their output is zero rated.

The ratio reached 20 percent in 2013/14 as a result of the Millennium Challenge Corporation's activities such as the construction of clinics and the Metolong Dam construction that were exempted from VAT. The ratio declined to 16.9 percent in 2014/15 when these constructions tailed-off.

In 2015/16, the Authority refunded a total of M566.0 million in VAT refunds increasing the VAT refunds ratio back to 20 percent. This represented a 43.6 percent growth from M394.0 million of VAT refunds in 2014/15 as a result of the expanding diamond sector.

Figure 18 depicts the main sectors that were re-funded in 2015/16.

Figure 18: VAT refunds (in million Maloti)

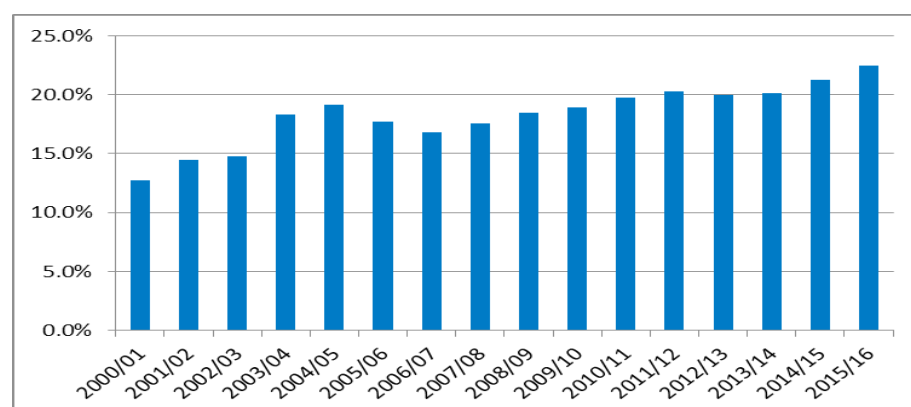


### 3.2.4 TAX-TO-GDP RATIO

The Tax to GDP ratio, which is the amount of revenue collected divided by the GDP value, is used to evaluate the capacity and efficiency of revenue agencies. A growing ratio of tax revenue to GDP implies a growing efficiency of a revenue authority.

Figure 19 below shows Lesotho's Tax to GDP ratio from 2000/01 to 2015/16.

Figure 19: Tax revenue as percentage of GDP (2000/01 to 2015/16)



The tax revenue to GDP, which was below 15 percent in the three years before the establishment of the LRA, rose to 18 percent in the first year of the LRA. In 2013/14 the ratio had reached 20.1 percent and grew further to 22.5 percent in 2015/16.

### 3.2.5 SACU RECEIPTS

Table 5 below provides a year on year comparison of the LRA's domestic tax revenue collections with SACU receipts.

*Table 5: Year on year performance of SACU receipts and the domestic tax revenue (in million Maloti)*

	2011/12	2012/13	2013/14	2014/15	2015/16
Tax Revenue (LRA)	3,770.7	3,995.4	4,421.9	5,182.3	5,861.5
SACU	2,752.6	5,966.3	6,054.6	7,034.1	6,398.2
Total	6,523.3	9,961.7	10,476.5	12,216.4	12,259.7
<b>Percentage of Revenue Source</b>					
Tax Revenue (LRA)	57.8%	40.1%	42.2%	42.4%	47.8%
SACU	42.2%	59.9%	57.8%	57.6%	52.2%

As shown above, in 2011/12 tax revenue exceeded the SACU receipts. This was due to a decline of SACU pool collections following the global credit crunch of 2008/09. SACU remittances recovered in 2012/13 up to 2014/15. In 2015/16, SACU receipts declined again pushing the tax revenue contribution to almost 50 percent.

### 3.2.6 TOLL-GATE FEES

The LRA also collects, on behalf of Road Fund, toll fees. In 2015/16, toll fees collections amounted to M48.95 million representing a 5.7 percent growth from 2014/15 collections.

### 3.2.7 COST OF COLLECTION

The cost of revenue collection shows the efficiency of the revenue administration. It is calculated by dividing the internal cost of operations (recurrent costs) by the total tax revenue collected (Income Tax and VAT).

Table 6 below shows the cost of collection from 2011/12 to 2015/16

*Table 6: Cost of collection 2011/12 to 2015/16 (in million Maloti)*

	2011/12	2012/13	2013/14	2014/15	2015/16
Total Tax Revenue	3,770.75	3,995.41	4,421.88	5,182.30	5,861.47
Operating Cost	201.8	241.02	297.67	342.6	346.47
Cost of Collection	5.35%	6.03%	6.73%	6.61%	5.91%

As shown above, the LRA was able to significantly reduce its cost of collection in 2015/16. This improvement was largely driven by the 13.1 percent increase in collection from the previous year and an 18 percent reduction in non-staff operating costs. Despite the increased enforcement activities

that increased debt collection in 2015/16, the LRA was able to carry out these efforts at lower costs.

The observed cost of collection for 2015/16 however still remains higher than 1 percent cost of collection by the South African Revenue Services (SARS) and

Botswana Unified Revenue Services (BURS) and the average 3 percent cost of collection by the African revenue services. This is because these administrations have invested a lot in improving their processes and technologies hence now enjoy greater efficiencies whereas the LRA is still in the process of modernization.

## 3.2.8 REVENUE FOREGONE ON TAX RELIEF MEASURES

*The GoL's policy on tax relief, pro-poor policy and exemptions provides various tax relief measures with the aim of reducing the tax burden among the low income earners.*

In 2015/16, the income tax brackets and the tax credit were adjusted upward by 6 percent giving back an estimated M638.06 million to Taxpayers.

This represented a 27 percent loss of the total individual income tax that would have been collected if the credit had not been given.

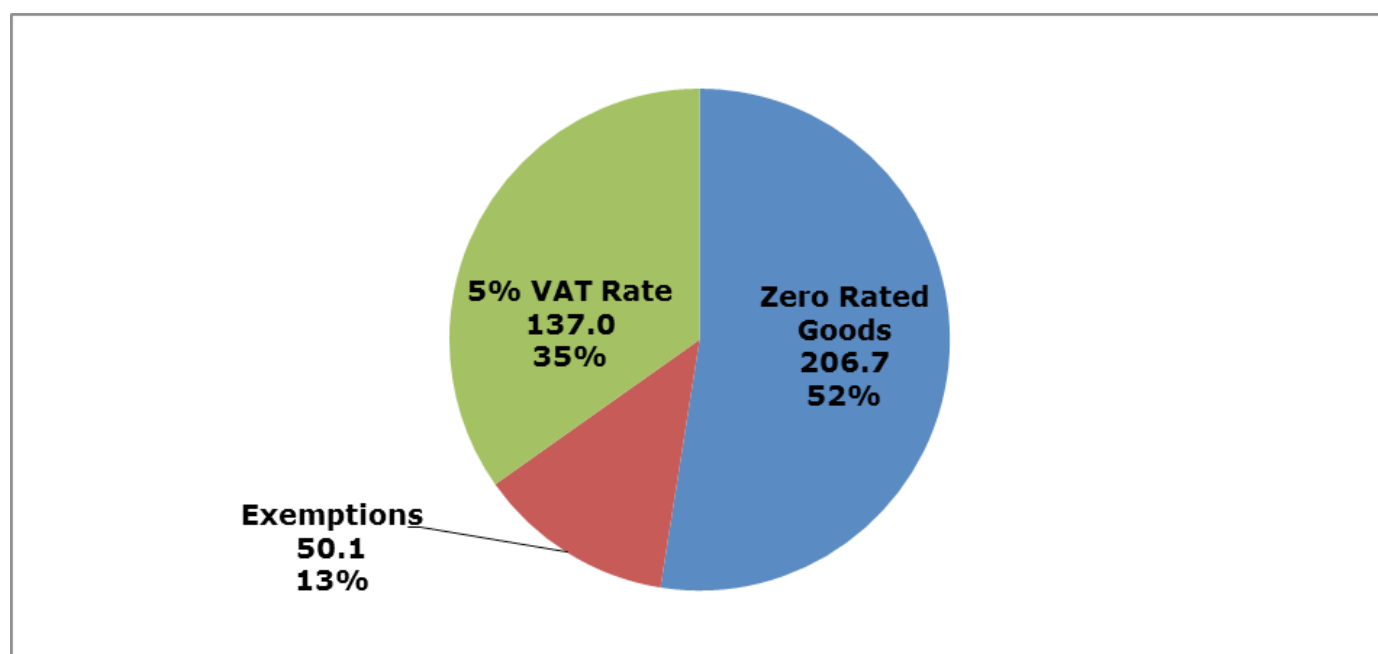
The use of tax credit has increased assistance to the low income employees and medium and small self-employed people.

The GoL's pro-poor policy of zero-rating basic foodstuffs, illuminating paraffin and agricultural inputs, the lower VAT rate of 5 percent on electricity and airtime, and

supplies prescribed as exempt by the Minister of Finance, have cost M393.77 million in terms of VAT revenue foregone during the 2015/16 financial year. The VAT forgone makes up 15 percent of the VAT revenue that would have been collected without tax expenditures on VAT.

Figure 20 shows the breakdown of VAT forgone into zero rated goods, lower tax rate services and the exemptions.

*Figure 20: Disaggregation of VAT forgone (in million Maloti)*



## 3.3 ENHANCING COMPLIANCE

### 3.3.1 TAXPAYER EDUCATION

In order to enhance voluntary compliance, the LRA has developed a vigorous Taxpayer education programme aimed at providing improved educational information to Taxpayers, educating Taxpayers on the introduction of changes to processes and new tax return forms, and generally raising awareness to the population.

Table 7 below highlights the various Taxpayer education initiatives undertaken during 2015/16.

*Table 7: 2015/16 Taxpayer education initiatives*

Initiative	Highlight
Tax Education through Radio Programmes	A total of 60 tax educational programmes were aired over five strategically selected radio stations. The topics covered were Import VAT Credit Facility; records keeping; new Income Tax return forms; importation of goods and the new Customs procedures. To reinforce the education campaign, promotional items were awarded to listeners who gave correct responses to questions over the radio.
Tax Education through Television	Three television programmes were aired on television as a strategy to achieve visual impact. The topics covered included basic record keeping of Income Tax returns; the benefits of paying taxes in a modern society and the importance of tax Compliance.
Debate Competitions	11 debate competitions aimed at entrenching Taxpayer education amongst the youth were held and attended by 125 high schools from all over Lesotho. The three top schools which won the top prizes were Soofia High School, Leribe English Medium School and Cenez High School.
Targeted tax education through clinics, roadshows, seminars and tax talks.	Over fifty targeted tax education sessions were held during the review period. Topics covered included and new Income Tax forms and the new automated Customs procedures.

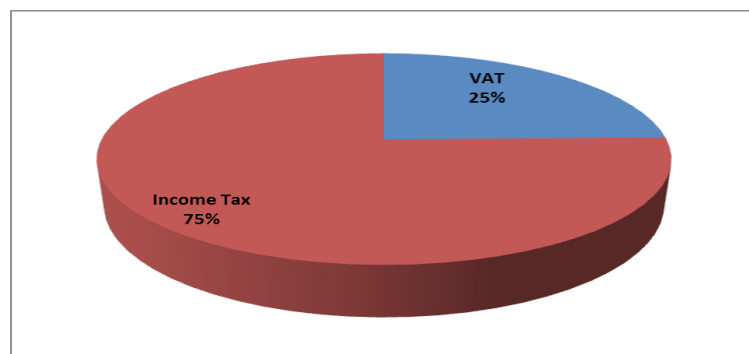


### 3.3.2 DEBT COLLECTION

Debt amounting to M362.25 million was collected in 2015/16 representing 6.2 percent of the total remittances for 2015/16.

Figure 21 below shows the breakdown of the debt collection by tax types.

*Figure 21: Debt collection by Tax types*



Over the past two years 50 percent of debt collection has been collected as CIT. 55 percent of CIT debt collection came from the wholesale and retail sector, 12 percent from the real estate sector and 10 percent by the manufacturing sector.

### 3.3.4 Development of Compliance Risk Management SOPs

The documentation of standard operating procedures (SOP's) for Compliance Risk Management was done during the period under review. The new SOP will boost implementation of the LRA's mandate of managing Taxpayers compliance and ensuring that they meet their tax obligations.

### 3.3.5 NCEN PROJECT

In January 2016, the LRA signed-off acceptance and completion of the National Customs Enforcement Network (nCEN) Project. nCEN is a system developed by WCO to assist Customs administrations in the collection, storage, and exchange of enforcement related information at a national level. The project, which was delivered by the WCO under "Building Trade Capacity through Customs Modernization in the East and Southern Africa (ESA) Region", was fully sponsored by the Finnish Government. This was described by the WCO's consultants as the swiftest and best executed project in the region.

## 3.4 CORPORATE CRITICAL ISSUES

### 3.4.1 MODERNISATION OF LRA PROCESSES AND SYSTEMS

During the 2015/16 financial year, activities towards modernizing LRA's processes and systems continued under the LRA modernization agenda. The main objectives of the agenda are to:

- Improve service delivery to Taxpayers;
- 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, those related to Customs operations, as well as those related to core support processes within the Authority.

#### 3.4.1.1 TAX MODERNISATION PROGRAM

The implementation of the Enterprise Taxation and Management (ETPM) system continued under the Tax Modernisation program. During the period under review the following milestones were achieved:

- The roll out of the VAT module;
- The roll out of the PIT and FBT modules;
- The completion of the development of the CIT and IIT modules which are due for roll out in April 2016;

The completion of the development of the ETPM and ASYCUDA payments integration, which will provide a single platform for processing tax and Customs payments, is also due for roll out in April 2016. The ETPM system replaces the legacy tax systems that the LRA previously used and sets the foundation for the provision of electronic services to Taxpayers.

#### 3.4.1.2 CUSTOMS MODERNISATION PROGRAM

During the period under review, two projects were implemented under the Customs Modernisation program. These were the Customs Procedures and Automation (CPA) through the use of the ASYCUDA World system and the implementation of Customs scanners.

Under the CPA project, the ASYCUDA World system was rolled out to the remaining commercial border posts which are Maseru

border, Qachas'nek border, Van Rooyens border and Caledon Spoort. The system was also rolled out to Moshoeshoe 1 International Airport. Extensive awareness and training for traders and clearing agents was carried out as part of the roll outs.

Under the scanners project, two compact mobile scanners were introduced during the period under review. The scanners are used to augment the inspection

process throughout the country. Preparations for the roll out of an X-ray Baggage Scanner (XBS) at the Moshoeshoe 1 International Airport were also carried out with plans underway for roll out in April 2016.

### 3.4.1.3 SUPPORT MODERNISATION PROGRAM

Under modernize support program the upgrade of the LRA network was completed and project closed in July 2015. A new backup and recovery system was also implemented during the period under review.

### 3.4.2 COMPLIANCE MODEL

In 2014, the LRA commenced a project that was aimed at putting in place a programme that would provide a structured approach to the management of Taxpayers' compliance based on their compliance patterns. During the period under review the Authority undertook research to accumulate knowledge on factors that influence Taxpayer behaviours and the requirements to improve compliance. Following this research a compliance model and program were developed.

### 3.4.3 IMPROVE LRA INFRASTRUCTURE.

During the period under review, the LRA finalized the refurbishment of the Caledonspoort border-post. The new border facility was officially opened by the Minister of Home Affairs, Honourable Lekhetho Rakuoane. The refurbishment of the border-post included the road works, new staff housing, and a new border post building.

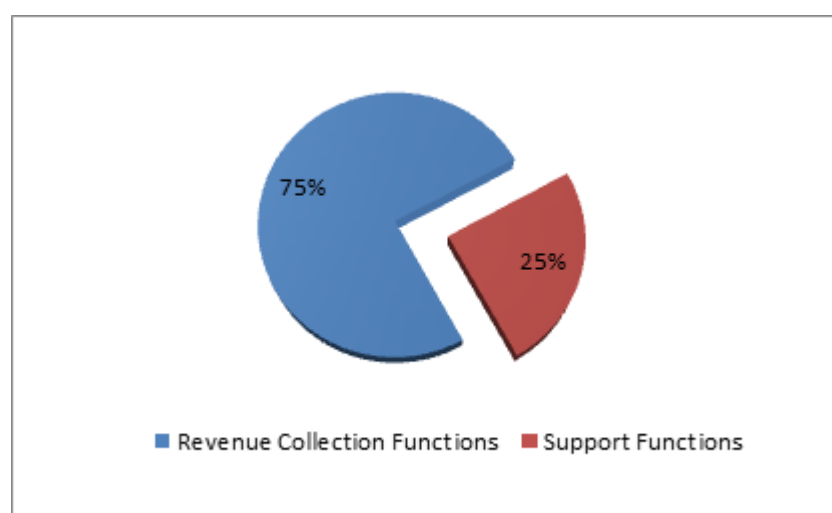
## 3.4.4 STAFF CAPABILITY AND RETENTION

### 3.4.4.1 STAFF COMPLEMENT

As at the end of March 2016, the LRA had a complement of 676 fulltime staff as compared to 674 as at the end of March 2015. Staff turnover increased slightly from 1.9% in 2014/15 to 2.2% in 2015/16. The areas that have experienced the highest turnover are project management and Information Technology due the high demand for these skills in the country.

Figure 22 below shows the allocation of resources to functions that are directly involved in revenue collection and those in support functions.

*Figure 22: LRA human resources allocation by functions*



### 3.4.4.2 REVIEW OF HUMAN RESOURCES POLICIES

The LRA's Human Resource policies were reviewed in the 2015/16 financial year commencing with a series of consultative meetings which were held with employees to solicit their inputs. The review of policies was necessitated by the

constantly changing external and internal environments which have affected the employer/employee relationship, as well as the operations of the Authority.

The new policies aim to achieve staff capacitation on

identified key areas and required competencies. The policies will also give guidance on the development of programmes that will address challenges such as the undesirable turnover of staff.

### 3.4.4.3 LRA ENDS WOMEN'S MONTH CELEBRATIONS ON A HIGH NOTE

A ceremony to commemorate the women's month celebrations in August 2015, was carried out by the Authority. Among the guests speakers were a popular motivational speaker, Mrs. Masesheke Ntlhakana, Reverend

Neo Motoko from the AME Church and poet Ms. Tumeliso Sakoane with poetry.

The objective of the ceremony was not to only provide a platform for women to discuss and share

knowledge on challenges they faced at work and at home, but to thank LRA women for their contribution and professionalism in the LRA. All ladies who attended the session received presents and tokens of appreciation.

### 3.4.4.4 LRA MEN ENCOURAGED TO BE RESPONSIBLE

An event dubbed "Celebration of the African Man" aimed at recognizing the importance of men in the LRA as well as in life was celebrated in September 2015. The aim of the event was to motivate men to achieve both professional and personal targets. All men who attended the event were also showered with presents.

### 3.4.4.5 TRAINING AND DEVELOPMENT

During the period under review, the LRA carried out various training initiatives. Areas covered included leadership development training for senior management, technical training related to taxes and Customs, and training related to the new systems that have been recently introduced.

### 3.4.5 ENTRENCH A CULTURE OF ACCOUNTABILITY

The LRA has identified a requirement to create a culture of accountability as one of the high priority critical issues required to drive successful implementation of the 2014-19 Strategic Plan. During the period under review training in service level management and a review of the LRA's financial policies and procedures were carried out.

#### 3.4.5.1 SERVICE LEVEL MANAGEMENT TRAINING

In a bid to ensure the successful implementation of the strategy throughout the organization, the LRA organized a course for employees on drafting of service level agreements. The course equipped the participants with skills that will enable them to have a meaningful impact in the development of service levels agreements.

#### 3.4.5.2 REVIEW OF FINANCIAL POLICIES AND PROCEDURES

A review of the LRA's financial policies and procedures was carried out and completed in February 2016. The need for

review was prompted by a number of developments in the LRA that rendered the old policies unusable. The new policy and procedures

manual have been aligned to the International Financial Reporting Standards and International Accounting Standards.



## 3.5 CORPORATE SOCIAL INVESTMENT

In recognition of the need to contribute towards the development of the communities that it operates in, the LRA annually identifies and carries out CSI initiatives. This section provides an overview of the CSI initiatives that were carried out during the period under review.

### 3.5.1 LRA HANDS OVER COMMUNAL WATER TAPS AT SANI TOP

In May 2015, the LRA handed over a potable drinking water project to the community residing in the vicinity of the Sani Pass border area. Prior to this project, the community had to ration their water supply and melt snow in order to supplement available water. The project will help promote personal hygiene and has additional benefits of preventing epidemics that result from the use of water from unprotected wells.

### 3.5.2 LRA GIVES PUPILS A LIFELINE

The LRA handed over new school facilities at Likoabing Primary School at Rothe in June 2015. The project comprised the construction of four classrooms, three blocks of toilets for teachers and pupils and a staff office. The old school block was also given a facelift as well as the church which had been used as an alternative classroom.

The initiation of this project began when members of staff were requested to advise on a project that the LRA could be involved in as part of the LRA Day celebrations. A vast majority of staff were of the view that LRA should assist the community of Likoabing at Rothe. This view came as a result of a sad story aired over the media about a school which had extremely limited facilities such as class rooms and toilets, with pupils from different grades sharing just one room with no existing ablution facilities at all. The facility was handed over to the Honourable Minister of Education and Training, Dr. Mahali Phamotse.

### 3.5.3 BACHA ENTREPRENEURSHIP PROJECT ON COURSE

The LRA in partnership with Basotho Enterprise Development Corporation (BEDCO) and Standard Lesotho Bank initiated a training programme for twenty youths shortlisted for the "Bacha Entrepreneurship" project to run for two weeks during the month of June 2015.

The project commenced in 2014/15 and its aim is to provide future entrepreneurs with skills on developing business proposals that include taxation, marketing, financial projections and record keeping. The project's main focus is on young unemployed graduates between the ages of 21 and 35.

## 3.6 MANAGING STAKEHOLDER RELATIONSHIPS

### 3.6.1 LRA MEETS CHINESE TRADERS IN TAX TALK SESSION

In May 2015, the LRA organized a successful tax talk session with the Chinese business community. The meeting provided a platform to discuss challenges encountered by the Chinese community with regard to tax laws, and to find means of resolving them. The presentation delivered by the Commissioner Domestic Taxes covered compliance and tax morale, benefits of taxation to the nation and the consequences of non-compliance. The talk emphasized that fair taxation would help Lesotho to invest in public services such as health, education, energy and infrastructure, creating jobs and opportunities for its growing population.

#### Challenges identified among the business traders were:

- Inadequate and unsystematic record keeping;
- Systematic availability of cash offers (bribery) for officers;
- Poor declaration of commodities with Customs and non-payment of the import VAT;
- Non-declaration of goods zero rated in SA and imported into Lesotho at standard rate; and
- Failure to pay provisional tax when due.

The meeting was a way of building strong relationships with the business sectors and formed part of the continuing campaign to improve services rendered to Taxpayers by the Authority.

### 3.6.2 COMMISSIONER GENERALS MOVE

#### TOWARDS SUB-REGIONAL TAX CO-OPERATION

Commissioner Generals from Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe met in Pretoria, South Africa in October 2015 to consider means and ways of enhancing regional tax co-operations to deal with among others, Illicit Financial Flows (IFFs) and Base Erosion and Profit Shifting (BEPS). The meeting started by first identifying and confirming common issues and challenges through a series of presentations on the following topics:

- Integrity in revenue administrations;
- Impact of illicit trade on revenue collection;
- VAT fraud;
- Customs data interconnectivity;
- Use of data to counter trade mispricing;
- Domestic aggressive tax planning schemes; and
- Practical steps for the automatic exchange of information.

Based on common themes, the following were established:

- A forum known as “Southern Africa Forum for Commissioner Generals”;
- An interim steering committee made up of Angola, Botswana, Malawi, Swaziland and South Africa to develop terms of reference for technical working groups. South Africa was elected as the chair of the committee.

### 3.6.3 LRA MEETS SMALL BUSINESS ASSOCIATIONS

In June 2015, the LRA held an interactive session with representatives of Small Business Associations. The session formed part of the tax filing season campaign where Taxpayers were encouraged to submit Income Tax forms and pay due taxes on or before the 30th June 2015. The purpose of the meeting was to create a platform where the

LRA and the small business associations could meet and clarify expectations with regard to tax laws. The meeting also provided a platform to discuss challenges encountered by the small business community with regard to tax laws in order to resolve them.

During the session, participants urged the LRA to decentralize its

services across all districts in the country and to join hands with relevant stakeholders to close down bogus businesses.

### 3.6.4 INTERNATIONAL AGREEMENTS PUBLISHED

A number of agreements were signed and ratified during the review period. In 2015, the Authority, through the Ministry of Foreign Affairs, ratified two Tax Information Exchange Agreements (TIEAs), with Isle of Man and Guernsey. These are two islands in Europe which have been used as tax havens and which Southern African countries through the assistance of the Southern African Development Community (SADC) saw a need to conclude these agreements with.

The agreements were both entered into force in January 2015, but were prudently publicized during 2015/16, due to the uncertainty that surrounded domestication. The agreements cover exchange of information, tax examinations abroad, and technical assistance procedures and assistance in collection of tax.

Two other Agreements on Mutual Assistance in Tax Matters (AMATMs) with SADC and ATAF were also ratified during the review

period. In addition to the exchange of information, these agreements also cover tax examinations abroad, simultaneous audits, assistance in collection and mutual assistance procedures. It must be noted that these two agreements can only be implemented when two thirds of SADC members and five ATAF member countries have ratified them. While this condition has not yet been met, to-date, Lesotho was applauded for being one of the first countries to ratify.

### 3.6.5 INTERNATIONAL ANTI-CORRUPTION DAY CAMPAIGN LAUNCHED

The International Anti-Corruption Day Campaign was launched in September 2016 by the LRA, Lesotho Mounted Police Service (LMPS) and the Directorate on Corruption and Economic Offences (DCEO). These three organizations share a mandate to fight corruption within Lesotho.

The three (3) institutions have

for the past years successfully worked together on different assignments in combatting all forms of economic offences.

The campaign was marked by a series of activities which were aimed at disseminating information and to also create awareness on the cancerous effects of corruption on Lesotho's

economy.

The International Anti-Corruption Day was celebrated in December 2015 with the theme: *"Break the Corruption Chain."*

### 3.6.6 ATAF GIVES LRA TECHNICAL ASSISTANCE

The African Tax Administration Forum (ATAF) held a four day technical assistance workshop for 13 LRA operational employees on the Exchange of Information (EOI) for tax purposes. The workshop comprised training and development of a business process manual on EOI for tax purposes as provided for by the international tax agreements that Lesotho has signed.

The participants were familiarized with EOI function and its importance to their daily operations as supported by the international tax agreements. The ATAF experts also offered technical assistance to the LRA to document the EOI processes and develop its manual.

The manual will be used as a working document within the LRA and will also to be shared with

Organization for Economic and Development (OECD) as part of phase 2 Peer Review that Lesotho is currently undergoing.

Lesotho has been a member of ATAF since October 2009 and has enjoyed benefits focused on capacity building of the Authority.

### 3.6.7 LRA HOSTS GLOBAL FORUM DELEGATION

The LRA hosted a delegation of assessors from the Organization for Economic and Development (OECD) Global Forum for Lesotho's onsite assessment on the practical applications of the legal and regulatory framework for transparency and exchange of information for tax purposes.

The delegation's visit took place in February 2016.

The delegation held meetings with different stakeholders in the country including the Registrar of Companies at the Ministry of Trade and Industry Cooperatives

and Marketing, Ministry of Finance, the Registrar of Deeds at the Ministry of Local Government, the Central Bank of Lesotho, the Financial Intelligence Unit and various offices within the Authority. The delegation reported their preliminary findings and left the LRA with a list of assignments that had to be carried out before July 2016. The assignments are largely centred on documented proof that Lesotho institutions do maintain updated information and that sanctions are imposed where there are deviations from what the regulatory framework provides.

The final report would be tabled before the OECD Peer Review Group in a meeting to be held in September 2016. A positive adoption of the report would give Lesotho a good reputational rating through portrayal of transparent and viable investment climate which is also linked to investment policies of international bodies.



# **PART 4:**

# **FINANCIAL STATEMENTS**

**LESOTHO REVENUE AUTHORITY**

**Financial Statements**

**For the year ended 31<sup>st</sup> March 2016**



# DIRECTORS' STATEMENT OF RESPONSIBILITY AND APPROVAL

## LESOTHO REVENUE AUTHORITY FINANCIAL STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

The board of directors of the Lesotho Revenue Authority is required to maintain adequate accounting records and is responsible for 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 for LRA at the end of the financial year and the results of its operations and the cash flows for the year then ended, and the conformity with the Generally Accepted Accounting Practices (GAAP), International Financial Reporting Standards (IFRS) and in the manner required by the Lesotho Revenue Authority Act No. 14 of 2001.

The financial statements are prepared in accordance with GAAP and IFRS and based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

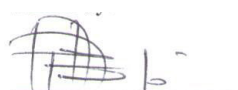
The Board of Directors acknowledges that it is ultimately responsible for the system of internal controls established by LRA and places desirable importance on maintaining a strong control environment. To enable to meet these responsibilities, the Board sets standards for internal controls aimed at reducing the risk of error of loss in cost effective manner. The standards include proper delegation of responsibilities within a clear defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These attempts are monitored throughout the LRA and all employees are required to maintain the highest ethical standards in ensuring the LRA's standards in a manner that in all reasonable circumstance in above reproach. The focus of risk management in the LRA is identifying, assessing, managing and monitoring all known focus across LRA. While operating risk cannot be fully eliminated, the LRA endeavors to minimize it by ensuring that appropriate infrastructure, control systems and ethical behaviors are applied and managed within predetermined procedures and constraints.

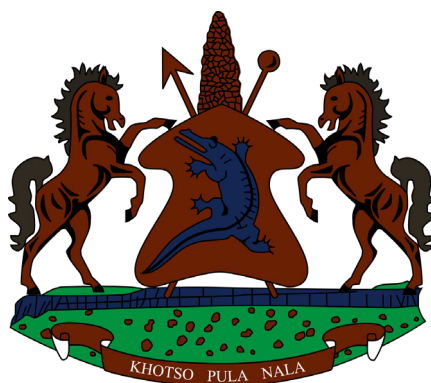
The Board is of the opinion that the system of internal control provides reasonable assurance that the financial records maybe relied on for the presentation of financial statements. However, any system of internal financial control can only provide reasonable assurance and not absolute assurance against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

The board has reviewed the LRA's cash flow forecast for the year ended 31 March 2016 and its satisfied that LRA has access to adequate resources to continue in operational existence for the foreseeable future. This is based on the understanding that the Minister of Finance will secure adequate funding for the LRA to meet its operational needs. The external auditors are responsible for independently reviewing and reporting on the LRA's financial statements.

The financial statements set out on pages 6 to 19 which have been prepared on the going concern basis, and were approved by Board of Directors on 26 June 2016 and signed on its behalf by:

  
Chairman  
Director

# AUDITOR GENERAL'S OPINION



**Office of the Auditor General**

**P.O Box 502, Maseru 100**

**Lesotho**

## REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO REVENUE AUTHORITY FOR THE YEAR ENDED 31 MARCH 2016

Moteane, Quashe and Associates Chartered Accountants under section 15(1) of the Audit Act 1973 have audited the accompanying financial statements of the Lesotho Revenue Authority, which comprises the statement of the financial position as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and cash flow statement of the year then ended, and a summary of other significant accounting policies and other explanatory notes as set in pages 6 to 19.

### **MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstance.

### **AUDITOR'S RESPONSIBILITY**

My responsibility is to express opinion on these financial statements based on the audit. The audit has been conducted in accordance with International Standards on Auditing. Those standards require auditors to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement whether due to fraud or error.

In making those risk assessment; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence i have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## OPINION

In my opinion the financial statement present fairly, in all material respects, the financial position of the authority as at 31 March 2016, and of its financial performance and its cash flow for the year then ended in accordance with international financial reporting standards and in the manner required by Lesotho revenue authority act 2001.



**LUCY L. LIPHAFa (MRS)**

**30 JUNE 2016**

**AUDITOR-GENERAL**



# LESOTHO REVENUE AUTHORITY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

INCOME	MARCH 2016	MARCH 2015
	M	M
Government funding	305,335,748	302,749,643
Interest received	1,851,960	3,264,945
Tollgate fees Income	5,773,674	5,641,341
Storage income	757,546	1,254,543
Commission received	188,768	160,117
Other income	283,657	85,811
Amortization Project Funds	3,865,026	3,556,265
Project Funding	1,100,000	1,327,395
	<b>319,156,380</b>	<b>318,040,060</b>
Staff related expenses	229,786,935	200,139,609
Administration expenses	102,830,603	119,381,752
Inspection and enforcement expenses	6,324,558	16,035,402
Vehicle running expenses	7,290,613	7,044,497
<b>Total expenditure</b>	<b>346,232,709</b>	<b>342,601,260</b>
<b>(Deficit) for the year</b>	<b>(27,076,329)</b>	<b>(24,561,200)</b>

# LESOTHO REVENUE AUTHORITY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2016

ASSETS	NOTE	MARCH 2016	MARCH 2015
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	2	309,886,793	269,161,221
<b>CURRENT ASSETS</b>			
Accounts Receivable	3	30,665,505	10,032,921
Bank and Cash	4	2,119,009	25,998,965
Collections Bank Account Balances	5	115,062,817	62,945,065
<b>TOTAL CURRENT ASSETS</b>		<b>147,847,331</b>	<b>98,976,951</b>
<b>TOTAL ASSETS</b>		<b>457,734,124</b>	<b>368,138,172</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
GOL Funding	6	282,395,477	222,709,733
Accumulated Surplus		10,322,646	32,573,759
Trust account	7	1,828,712	1,597,292
<b>TOTAL CAPITAL AND RESERVES</b>		<b>294,546,835</b>	<b>256,880,784</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions for Terminal Benefits	8	18,487,954	22,986,029
		<b>18,487,954</b>	<b>22,986,029</b>
<b>CURRENT LIABILITIES</b>			
Provision for leave pay	9	2,722,104	2,471,798
Collections Account balances Remittable	5	115,062,817	62,945,065
Accounts Payable and Accruals	10	26,914,412	22,854,496
<b>TOTAL CURRENT LIABILITIES</b>		<b>144,699,333</b>	<b>88,271,359</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>457,734,122</b>	<b>368,138,172</b>

## STATEMENT OF CHANGES IN CAPITAL AND RESERVES 31 MARCH 2016

	NOTE	GOL FUNDING	ACCUMULATED SURPLUS	TOTAL
<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	0	28,596,687
Grant- Project funding		95,203,313	0	95,203,313
Prior year adjustment		(83,624,842)	85,082,666	1,457,824
Current year amortization		(3,556,264)	0	(3,556,264)
Surplus for the period		0	3,301,889	3,301,889
<b>Balance as at 31st March 2014</b>		<b>214,265,998</b>	<b>48,926,907</b>	<b>263,192,905</b>
Funds from government		8,000,000	0	8,000,000
Grants- Project Funding		4,000,000	0	4,000,000
Prior year adjustment			8,208,054	8,208,054
Current year amortization		(3,556,264)	0	(3,556,264)
Deficit for the period		0	(24,561,203)	(24,561,203)
<b>Balance as at 31st March 2015</b>		<b>222,709,733</b>	<b>32,573,759</b>	<b>255,283,492</b>
Funds from government		36,300,000	0	36,300,000
Grants- Project Funding		28,647,102	0	28,647,102
Prior year adjustment	15	(1,396,332)	4,825,217	3,428,885
Current year amortization		(3,865,026)	0	(3,865,026)
Deficit for the period		0	(27,076,329)	(27,076,329)
<b>Balance as at 31st March 2016</b>		<b>282,395,477</b>	<b>10,322,646</b>	<b>292,718,123</b>

## LESOTHO REVENUE AUTHORITY CASH FLOW STATEMENT AS AT 31 MARCH 2016

	NOTE	MARCH 2016	MARCH 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Deficit)/Surplus for the year		(27,076,329)	(24,561,202)
Adjustments for item not involving cash movement:			
Interest (received)/paid		(1,851,960)	(3,264,945)
Depreciation		8,429,536	10,061,105
Prior year adjustments	15	4,825,217	8,208,054
(Gain)/Loss on fixed asset disposal		(107,851)	0
Surplus /(deficit) before changes in working capital		(15,781,387)	(9,556,988)
(Increase)/Decrease in accounts receivable		(20,632,584)	(9,318,394)
(Decrease) /increase in accounts payable			
Provisions and collection accounts		51,929,898	29,972,563
<b>Net cash inflow from operating activities</b>		<b>15,515,927</b>	<b>11,097,181</b>
<b>Cash flows from investing activities</b>			
Interest received		1,851,960	3,264,945
Purchase of property, plant and equipment		(49,159,460)	(97,708,445)
Movement from PPE to Operating Costs		0	0
Proceeds on disposal of assets		112,206	0
<b>Net cash outflow from investing activities</b>		<b>(47,195,294)</b>	<b>(94,443,500)</b>

**Cash flows from financing activities**

GOL capital funding	31,038,642	4,443,736
Grants Project Funding	28,647,102	4,000,000
Funds Account	231,420	442,687
	59,917,164	8,886,423
Increase/(Decrease) in cash and cash equivalents	59,917,164	8,886,423
Cash and cash equivalents at beginning of the year	28,237,796	(74,459,896)
	88,944,030	163,403,926
<b>Cash and cash equivalents at end of the period</b>	<b>117,181,826</b>	<b>88,944,030</b>



In a bid to implement the objectives of the Strategic Plan 2014-19 Critical Issue 3 - Develop a Culture of Accountability throughout the Organization, the LRA organized a course for ten employees on drafting the Service Level Agreements

# LESOTHO REVENUE AUTHORITY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

## 1. BUSINESS ACTIVITY

The LRA collects inland taxes, duties and excise on behalf of the Government of Lesotho and transfers the said to the GOL on a weekly basis.

### 1.1 STATEMENT OF ACCOUNTING POLICIES

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

### 1.2 STATEMENT OF COMPLIANCE

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

### 1.3 PROPERTY, PLANT AND EQUIPMENT

### 1.4 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.

#### 1.4.1 DEPRECIATION

Depreciation is charged to the income of comprehensive income on the straight-line basis over the estimated useful lives of each part of the relevant asset.

#### 1.4.2 CHANGE IN POLICY

There has been a change in the Property Plant and Equipment policy whereby some of the assets were classified differently as follows:

- The following assets which were previously classified under the property category have now been classified under new categories as shown below:
  - Buildings into buildings category;
  - Water tanks and generators into emergency equipment;
  - Parkhomes and still containers into bins and containers; and

- Boomgates and fences into security measures.
- Under the office equipment category some assets were reclassified as follows:
  - Safes into furniture and fittings; and
  - Fire arms into emergency equipment.
- The computer equipment category was reclassified into office equipment.

## 1.1.1 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.

## 1.1 FINANCIAL INSTRUMENTS

### 1.1.1 MEASUREMENT

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

### 1.1.2 TRADE AND OTHER RECEIVABLES

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

### 1.1.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at fair value.

### 1.1.4 FINANCIAL LIABILITIES

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



## 1.1 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 were donor funded.

*THE PROJECTS ARE SHOWN BELOW.*

PROJECT	FINANCIER	2016	2015
		M	M
LRA SARS Corporation	World Bank	0	1,327,395
Compliance Model	GoL	1,100,000	0

## 1.1 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.

## 1.2 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.

## 1.3 EMPLOYEE BENEFITS

### 1.3.1 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.

### 1.3.2 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.

## 1.1 FINANCIAL ASSETS AND LIABILITIES

### 1.1.1 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.

### 1.1.2 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.

## 1.2 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.

## 1.3 GOVERNMENT GRANT/ASSISTANCE

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

## 2. PROPERTY, PLANT AND EQUIPMENT

Depreciation rates (%) <u>Owned Assets</u>		2016		2015	
		Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
		M	M	M	M
10	Immovable Property	9 396 340	-	26 595 206	(18 370 884)
25	Motor Vehicles	6 478 191	(6 424 401)	7 143 831	(36 996)
10	Furniture and Fittings	12 722 205	(8 612 291)	95 374 293	(59 465 206)
20	Office Equipment	27 557 021	(24 610 856)	7 143 831	(6 650 318)
33	Computer Equipment	(0)	1	11 887 268	(7 158 395)
	Security Measures	211 048	(200 876)	-	-
	Buildings	77 575 695	(57 244 087)	-	-
	Bins and Containers	544 779	(480 710)	-	-
	Emergency equipment	3 167 295	(2 207 198)	-	-
<b>Managed Assets</b>					
	Work -In- Progress-		-		
	Border Refurbishment	64 955 182	-	418 938	
	IRMS	167 133 735	-	129 231 016	
	Scanners	38 229 098	-	23 739 018	
	DCS Customs	175 345	-	69 627 113	
	LRA Housing	157 237	-	175 345	
	Assets Work in Progress	1 083 370	-	162 606	
	Oracle Upgrade	280 556	-	280 556	
		<b>409 667 097</b>	<b>(99 780 419)</b>	<b>309 886 678</b>	<b>(91 681 798)</b>
				<b>371 779 021</b>	<b>280 097 223</b>

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

Depreciation rates (%) <u>Owned Assets</u>		Carrying Amount at 2015/01/04	Additions during the year	Disposal/ reclassification during the year	Depreciation for the year	Movement between Asset types	Carrying Amount at 31/03/2016
		M			M	M	M
10	Immovable Property	35 207 723	51 052	21 337 745	4 524 690	-	9 396 340
25	Motor Vehicles	493 513	-	(21 803)	461 526	-	53 790
10	Office Furniture	4 836 251	24 959	(108 803)	817 350	-	4 152 662
20	Office Equipment	701 364	47 292	(2 698 596)	604 536	-	2 842 716
33	Computer Equipment	4 562 186	215 582	2 584 369	2 193 398	-	1
	Security Measures		-	(11 889)	1 187	-	10 702
	Buildings		-	(20 098 738)	(232 871)	-	20 331 609
	Bins and Containers		-	(71 150)	7 081	-	64 069
	Emergency equipment		-	(1 073 020)	52 639	-	1 020 381
<b>Managed Assets</b>							
	Work -In- Progress: Border	-				-	-
	Refurbishment	59 715 059	5 240 123	-	-	-	64 955 182
	IRMS	128 583 801	38 549 933	-	-	-	167 133 735
	Scanners	34 298 287	3 930 810	-	-	-	38 229 098
	DCS Customs	175 345	-	-	-	-	175 345
	LRA Housing	144 530	12 707	-	-	-	157 237
	Assets Work in Progress	162 606	1 087 002	166 237	-	-	1 083 370
	Oracle Upgrade	280 556	-	-	-	-	280 556
		<b>269 161 221</b>	<b>49 159 460</b>	<b>4 352</b>	<b>8 429 536</b>	<b>-</b>	<b>309 886 793</b>

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

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<b>Managed Assets</b>							
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	Refurbishment	59 715 059	5 240 123	-	-	-	64 955 182
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ACCOUNTS RECEIVABLE	MARCH 2016	MARCH 2015
	M	M
Deposit	257,611	257,611
Prepayments	470,341	672,558
Accrued income	29,883,292	9,057,210
Accrued interest	122	904
Accounts receivable	47,240	37,240
Other debtors	6,900	7,400
	<b>30,665,505</b>	<b>10,032,922</b>
BANK AND CASH		
LRA Operating account	(3,951,727)	(2,685,912)
88 day deposit account - Nedbank	19,155	509,312
Other short term deposits	1,888,170	11,994,485
LRA Call account	1,301,176	169,971
LRA SARS Account	433	433
IRMS Account	19,024	27,383
Border refurbishment project account	482,856	13,901,426
Money Market GOL	464,593	464,593
Cash on hand	66,619	19,982
Mascon development Fund	1,828,712	1,597,292
	<b>2,119,009</b>	<b>25,998,965</b>
COLLECTION ACCOUNTS		
LRA refund account	32,668,909	10,909,761
VAT call account	1,291,723	13,928,027
VAT current account	4,478,614	5,056,495
Income Tax call account	3,431,376	4,430,652
Income Tax current account	28,726,627	15,046,578
Refunds Cash on hand	0	0
Toll Fees Current account	479,936	491,806
	<b>71,533,418</b>	<b>39,844,051</b>
SACU ACCOUNTS		
Current account	0	575,897
SACU 32 day account- Nedbank	206,508	0
Customs call account	43,322,891	22,525,116
	<b>43,529,399</b>	<b>23,101,013</b>
<b>NET BALANCE</b>	<b>115,062,817</b>	<b>62,945,064</b>

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

## 6 CAPITAL INJECTION/ GOVERNMENT FUNDING

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance) 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 have been revalued by Lethola Cost Associate.

## 7 TRUST ACCOUNT(RENTAL INCOME MASCON)

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

PROVISION FOR TERMINAL BENEFITS	MARCH 2016	MARCH 2015
	M	M
Gratuity	7,216,389	12,781,731
Severance pay	11,271,565	10,204,298
	<b>18,487,954</b>	<b>22,986,029</b>
PROVISION FOR LEAVE PAY	MARCH 2016	MARCH 2015
	M	M
Leave pay	2,722,104	2,471,798
	<b>2,722,104</b>	<b>2,471,798</b>

ACCOUNTS PAYABLE AND ACCRUALS	MARCH 2016	MARCH 2015
	M	M
Creditors	11,625,789	10,428,284
Accruals	14,563,567	11,517,914
Provision for Bonus	0	0
Salary Control Account	0	0
Other creditors	725,056	908,299
	<b>26,914,412</b>	<b>22,854,496</b>
	<b>48,124,470</b>	<b>48,312,323</b>



# 11 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 cases. The total exposure has been estimated at M18.8 million.

# 12 (DEFICIT)/SURPLUS

*(DEFICIT)/SURPLUS FOR THE PERIOD IS STATED AFTER CHARGING THE FOLLOWING:*

	MARCH 2016	MARCH 2015
	M	M
Depreciation	8,429,536	9,198,207
Board fees and expenses	1,331,673	739,843
Auditors' remuneration	308,509	292,529
	<b>10,069,718</b>	<b>10,230,579</b>

# 13 RELATED PARTIES

## 13.1 IDENTITY OF RELATED PARTIES

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

## 13.2 MATERIAL RELATED PARTY TRANSACTIONS

*THE LESOTHO REVENUE AUTHORITY IS FUNDED MAINLY BY THE GOVERNMENT OF LESOTHO AS DEPICTED BELOW:*

	March 2016	March 2015
	M	M
<b>FUNDING</b>	<b>305,335,748</b>	<b>302,749,643</b>

## 14. FINANCIAL INSTRUMENTS

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

### 14.1. CURRENCY RISK

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

### 14.2 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.

### 14.3 CREDIT RISK

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date there were no concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### 14.4 FAIR VALUES

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

## 15. PRIOR YEAR ADJUSTMENTS M4, 825,217

These adjustments were for transactions that relate to 2014/15 and earlier financial years but materialised in the current period under review as follows:

- Reversal of commutable leave that related to 2014/15;
- Security payments which were only honoured in 2015/16;
- Refund received relating to an expense incurred in 2014/15;
- The grant amortisation adjustment for previous periods.

# GALLERY







Lesotho celebrating 50 years of her Independence and LRA as a product of Lesotho's Independence sponsored and participated at the Independence walk from Maseru to Thaba Bosiu. Their Majesties, Ministers, Diplomats, and other Dignitaries graced the Walk with their presence.



The LRA hosted the 21st World Customs Organization Governing Council Meeting.





The Former LRA Commissioner General, Mr. Thabo Letjama and The Honourable Minister of Education and Training Dr. Mahali Phamotse at the event to officially hand over new classrooms at Likoabing Primary School



Through Bacha Entrepreneurship Project, the LRA and its partners seeks to empower youth to venture into business and curb unemployment.





Trainers Workshop on the National Customs Enforcement Network (nCEN) system. The nCEN is a system developed by WCO to assist Customs administrators in the collection, storage, and exchange of enforcement related information at the national level.



The LRA Executive Committee bid farewell to former Commissioner General, Mr. Thabo Letjama





The Lesotho Revenue Authority (LRA) in 2015/16 successfully completed the Phase One of the Organisation for Economic Co-operation Development (OECD) Global Forum Peer Review Process. The LRA met representatives of the OECD Global Forum in Maseru.



The LRA from time-to-time meets various sections of the business sector as part of its broader communication and change management programme.



# CONTACTS

## LESOTHO REVENUE AUTHORITY

PO BOX 1085  
MASERU100  
LESOTHO

**TEL:** (+266) 2231 3786 /5221 5000

**FAX:** (+266) 2231 2091

**EMAIL:** [info@lra.org.ls](mailto:info@lra.org.ls)

**WEBSITE:** [www.lra.org.ls](http://www.lra.org.ls)

