PROVIDING TAXPAYER GUIDANCE AND SUPPORT
2005/06 HIGHLIGHTS

- LRA continues to exceeds its revenue targets
- Taxpayer education clinics and campaigns undertaken across the country.
- Introduction of VIPS+ to integrate VAT and Income Tax systems
- Introduction of integrated Financial and Human resource systems
- Computerization of Customs in pipeline
- Establishment of Corporate Investigation Unit to deal with external corruption related matters
- LRA and SARS signed a Memorandum of Cooperation with the intention to build human resource capacity to nurture a competency and skill exchange programme.
- Introduction of a computerised corporate clearance covering both Income Tax and VAT.
- Introduction of Toll-free lines to augment internal and external anti corruption strategies for Customs and Excise and Internal Affairs Unit
- Implementation of Post Clearance Inspection/Audit (PCA) System

Aerial view of Qachas' Nek

CONTENTS

LIST OF ABBREVIATIONS

LRA – Lesotho Revenue Authority

SADC –Southern African Development Corporation

DFID – Department for International Development

VAT – Value Added Tax

GoL – Government of Lesotho

SACU – Southern African Customs Union

GST – General Sales Tax

RSA – Republic of South Africa

IVCF – Import VAT Credit Facility

VIPS – VAT Information Processing System

SARS – South African Revenue Service

GDP – Gross Domestic Product

NGO – Non-Governmental Organisations

VCT – Voluntary Counselling and Testing

CORPORATE PROFILE

VAT helpdesk officer assisting a taxpayer with motor vehicle clearances

The Lesotho Revenue Authority (LRA) is an operationally autonomous body that was established by the Lesotho Revenue Authority Act no. 14 of 2001 to be the:

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

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

The Authority is required to maintain the highest standards of financial integrity and corporate governance.
Despite operating outside the framework of the Civil Service, the Authority is fully accountable to Parliament.

V I S I O N ,   M I S S I O N   A N D   O B J E C T I V E S

VISION

To collect all taxes and duties due under the Laws of Lesotho, in order to provide funding for the delivery of public goods and services

MISSION

To provide a tax and duty environment characterised by integrity, efficiency and effectiveness, which treats all taxpayers equally, and offers rewarding career and growth opportunities to our Staff

STRATEGIC OBJECTIVES

The Authority has the following strategic objectives;

Revenue Collection

To continue to meet its revenue collection targets.

Fair and effective revenue environment

To create a revenue environment that is conducive to fair competition and to invest in systems, technology and to its people to ensure that no business is disadvantaged by being tax-compliant.

Voluntary compliance

To reduce the costs of collection and to free resources in order to undertake positive reinforcement activities such as taxpayer education. In order to raise the level of voluntary compliance, the LRA strives to, and be seen to be, even-handed and efficient.

Strong and sustainable organization

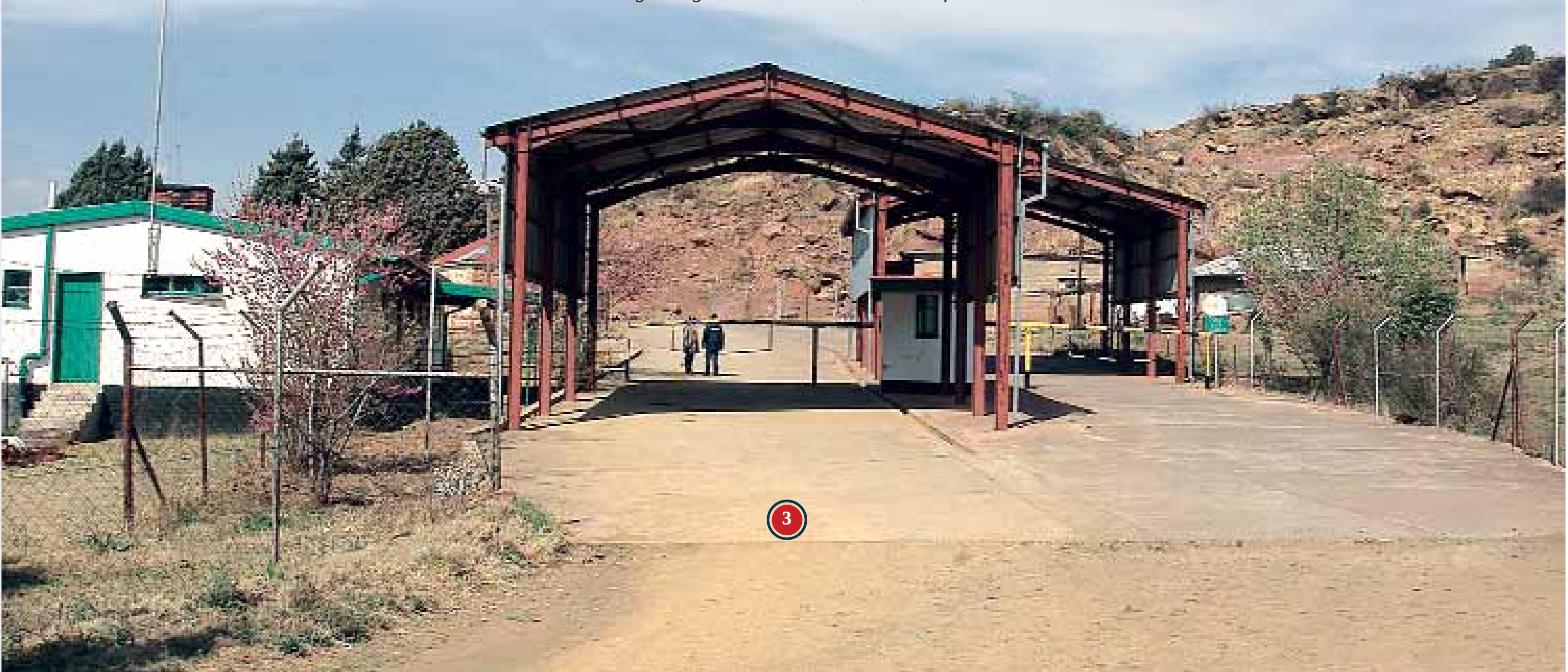
To focus on ensuring that it implements the systems necessary for sustaining the organization in future

Corporate image

To adopt a taxpayer centric approach – rather than a tax centric approach in its operations also identifying ways in which it can communicate more effectively with taxpayers.

Fight corruption

To demonstrates leadership in the fight against corruption



Makhaleng Bridge at Mohale'shoek, South of Maseru

LRA ORGANISATIONAL STRUCTURE

- LRA Board of Directors
  - Commissioner General / Chief Executive Officer
    - Deputy Commissioner General
      - Commissioner of Customs and Excise
      - Commissioner of Income Tax
      - Commissioner of VAT
    - Chief Internal Auditor
    - Chief Legal Officer and Corporate Secretary
    - Chief Information Officer
    - Director of Human Resources
    - Director of Finance and Administration

Senior Customs Officer operating a boom gate at Van Rooyen's Gate Mafeteng

GOVERNING BOARD

Ms Lineo Khechane

Chairperson

Ministry of Finance and Development Planning

Mr Thabo Pholeli

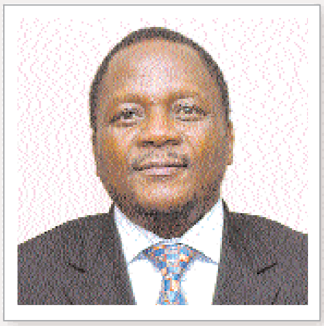
Lesotho Chamber of Commerce and Industry

Mr Sam Mphaka

Lesotho Institute of Accountants

Adv Thabo Makeka

Association of Lesotho Employers & Business



Mr Mohlomi Rantekoa

Ministry of Trade Industry, Cooperatives & Marketing

Mr Tanka Tlelima

Central Bank of Lesotho

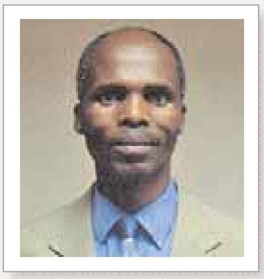
Mr Tseko Bohloa

Nominated by the Minister of Finance and Development Planning

SENIOR MANAGEMENT

Dr Charles Jenkins
Commissioner General

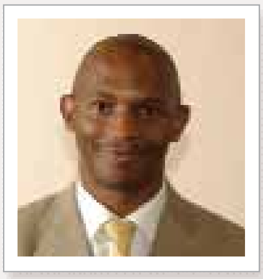
Mr Thabo Khasipe
Deputy Commissioner
General



Mr Nthako Sekome
Commissioner
Income Tax

Mr Thabo Letjama
Commissioner
Customs & Excise

Mrs Maleshoane Morakabi
Commissioner
Value Added Tax

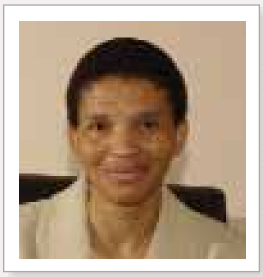


Mr Nelson Monyamane
Director Human
Resources

Mrs Idia Penane
Chief Information
Officer

Mr Lerotholi Pheko
Director Finance
& Administration

Dr Seth Macheli
Chief Legal Officer &
Corporate Secretary



Ms Ntefeleng Tsiboho
Chief Internal
Auditor

CHAIRPERSON'S STATEMENT

The year 2005/06 marked the third year in the life of the Lesotho Revenue Authority, and I am pleased to report that the Authority has continued to enjoy considerable success. In accordance with the LRA Act, the Authority's primary mandate is to ensure the collection of, and accounting for, taxes that are legally due to the Government. The LRA therefore plays a pivotal role in supporting the Nation's development agenda.

In addition to achieving a commendable collection performance, significant strides were made in reaching out to taxpayers in order to enhance voluntary compliance through the provision of taxpayer education and services. The decentralisation of Advice Centres to the districts of Leribe and Mohale's Hoek during the course of this year bears testimony to this.

The increased focus on taxpayer support and education reflects the priorities and initiatives set out in the Authority's first three-year Strategic Plan. This document articulated the LRA's intention to make itself more accessible and helpful to compliant taxpayers, while increasing its effectiveness in enforcing tax legislation against the non-compliant.

The Board views this move towards taxpayer-centricity, as distinct from tax-centricity, as a necessary strategic evolution if the Authority is to entrench a culture of voluntary compliance within our country. In pursuit of this, the Board has recently approved a new Strategic Plan to cover the period 2006-09, which focuses specifically on providing taxpayer services to support voluntary compliance.

I would like to take this opportunity to express the Authority's gratitude for the continued support of our development partners, most notably the United Kingdom Department for International Development (DFID). The assistance provided has enabled the Authority to develop at a pace that would otherwise have been unachievable; and I am delighted to announce that DFID has recently finalized an agreement to provide continued support, which will focus on building the sustainability of the LRA, for a further three years.

The strengthening partnership between the Authority and the South African Revenue Service (SARS) also proves to be of great value to the Authority. The Board views this relationship as a key success factor for the Authority and thanks SARS for its commitment to supporting it.

It would be inappropriate for me not to recognize here the continued support that the Authority enjoys from the Ministry of Finance and Development Planning and, by extension, the Government at large. On behalf of the Board, and the management and staff of the LRA, I wish to reaffirm that the LRA remains committed to administering the legislation for which it is responsible in a fair and effective manner, to support the Government's development agenda, and to create a level playing field for existing and potential businesses.

It is with great regret that I have to report the untimely death of the LRA's first Commissioner General, Mr Kevin Donovan, during the course of the year. Kevin

A taxpayer being assisted with payments at the Banking Hall

provided wise and able leadership to the Authority at a critical stage in its development, and he deserves a great deal of credit for the LRA's considerable achievements to date. The Board and staff of the Authority therefore dedicate this report to Kevin's memory.

Following Mr Donovan's death, the Board, with the support of DFID, undertook an urgent exercise to recruit a replacement. I am pleased to announce that with effect from 1 March 2006, Dr. Charles Jenkins took up the post of Commissioner General. On behalf of the Board and staff of the LRA, I would like to wish Charles every success in this position.

I would also like to offer my sincere thanks to Mr Thabo Khasipe, who acted as Commissioner General following Kevin Donovan's passing, and to the LRA management team, for their able running of the Authority's operations during the period when there was no substantive chief executive.

Lineo Khechane

Board Chairperson

COMMISSIONER GENERAL'S STATEMENT

I am pleased to present this third Annual Report of the Lesotho Revenue Authority, and I would like at the outset to acknowledge the great credit due to my predecessor, Kevin Donovan, for the achievements reported herein.

As the report indicates, during 2005/06, the Authority collected M1,580 million. This represents a shortfall of M30 million below the original target of M1,610 million approved by Parliament. However, during the 2005/06 fiscal year it was recognized that the economic forecasts that provided the basis for the VAT collection targets were overly optimistic; and in agreement with the Ministry of Finance and Development Planning, the VAT target was reduced by M36 million. The revised overall target was exceeded by M6 million, which represents a creditable performance, particularly as for much of the year the LRA was operating in the absence of a substantive chief executive.

A detailed breakdown of collections by tax type is given in the main body of the report. Clearly the LRA's strong performance in every tax area is something that must be consolidated and built upon. In order to achieve this the new Strategic Plan for the period 2006-09, which has been prepared with the active involvement of management and staff in every area of the Authority's activities, sets out six key strategic objectives. These are:

1. Revenue collection

2. Creating a fair and effective revenue environment

3. Enhancing voluntary compliance

4. Creating a strong and sustainable organization

5.Developing and enhancing the LRA corporate image

6. Fighting corruption.

These objectives are substantially overlapping. For example, if we are not effective in fighting corruption, we will not enhance our corporate image, nor will we be seen to create a fair and effective revenue environment. If this is the case, it will be very difficult to enhance voluntary compliance, and this will make it increasingly difficult and expensive for us to meet our revenue targets – which will call into question our long-term sustainability as an organization.

Over the course of the next three years, the LRA will undertake a series of carefully planned initiatives to address these objectives. Moreover, we will inculcate a culture of continuous improvement, based increasingly on providing improved services to our customers – the taxpaying public. To achieve this, we will enter into regular dialogue with our stakeholders, to ensure that the developments and initiatives we put into place address their specific concerns and requirements.

Dr Charles Jenkins

Commissioner General

COMMISSIONER GENERAL'S STATEMENT

(continued)

The new Commissioner General, Dr Charles Jenkins with staff at Ramatseliso's Gate

OVERVIEW OF COLLECTION PERFORMANCE

The LRA was originally assigned a target of M1,610.5 million for the financial year 2005/06. This comprised an Income Tax target of M922.3 million, and a VAT target of M688.2 million. The VAT target was reviewed during the course of the year, on the basis of strong evidence that the original forecasts on which it was based, were overly optimistic.

As a result of this review, the VAT target was reduced by M35.86 million, to M652.3 million. The Income Tax target remained as originally set, resulting in a new combined annual target of M1,574.60 million.

The actual amount collected as M1,580.27 million, which fell short of the original target by M30.23 million (-1.9%), but which exceeded the revised collection target by M5.67 million (+0.4%).

Income Tax collections amounted to M924.64 million against a target of M922.29 million, which represented an excess of M2.35 million (+0.25%).

Sani top border, Mokhotlong

Customs staff discussing clearance procedures with taxpayers at the State Warehouse

VAT collections amounted to M655.63 million, which represented a deficit of M32.6 million (-4.7%) against the original target of M688.2 million; but showed an excess of M3.33 million (+0.5%) against the revised target of M652.3 million.

Income Tax revenue continued to grow more strongly than VAT revenue. In 2004/05, the Income Tax-VAT ratio was 58% to 42%. In 2005/06, this ratio changed to 60% to 40%.

Table 1 below presents a quarterly breakdown by tax type of revenue collections for 2005/06.

ANALYSIS OF TAX REVENUE

Income Tax

- Company Tax collections amounted to M188.9 million, which was 14% lower than in 2004/05. Given the lag effect generated by basing Company Tax assessments on the previous year's business profitability, this reduced level of collection is indicative of reduced economic activity in 2004/05 relative to 2003/04. An explanation of this lag effect is given in Box 1 below.
- Personal Income Tax collections increased by M50.27 million, from M567.54 million in 2004/05 to M617.81 million in 2005/06. This represents an 8.9% increase.
- Unfortunately, the increase in Personal Income Tax collections is not indicative of increases in the level of employment in the economy. Rather it is the case that the economic difficulties experienced during the year led to the winding-down of some businesses, resulting in staff retrenchments and the concomitant increase in taxes collected on terminal benefits.

Table 1: VAT and Income Tax Collections for 2005/06

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
INCOME TAX					
Personal Income Tax	151.50	149.37	153.72	163.22	**617.81**
Company Tax	48.26	52.68	49.84	38.13	**188.90**
Other Taxes	27.57	25.58	26.05	38.73	**117.93**
Total Income Tax	**227.33**	**227.62**	**229.61**	**240.09**	**924.64**
Target	225.63	227.89	233.25	235.52	**922.29**
Variance	1.69	-0.26	-3.64	4.56	**+2.35**
% Variance	0.75%	-0.12%	-1.56%	1.94%	**+0.25%**
VAT					
Inland	93.43	99.10	101.19	112.41	**406.12**
Import (Customs)	55.66	59.82	65.88	68.14	**249.51**
Total VAT	**149.09**	**158.92**	**167.07**	**180.55**	**655.63**
Target (revised)	155.75	157.21	174.41	164.93	**652.30**
Variance	-6.66	1.71	-7.34	15.62	**+3.33**
% Variance	-4.28%	1.09%	-4.21%	9.47%	**+0.51%**
TOTAL COLLECTION					
Total collection	376.42	386.55	396.68	420.65	**1,580.30**
Target	389.95	393.74	417.25	400.45	**1,574.60**
Variance	-13.52	-7.19	-20.56	20.20	**+5.70**
% Variance	-3.47	-1.83	-4.93	5.04	**+0.4**

Value Added Tax

- VAT collections are composed of inland VAT and import VAT with the latter being collected by the Customs and Excise Division.
- Tight economic conditions did not favor this source of revenue. Unlike profit tax, VAT is a consumption tax collected out of sales by registered vendors. In this way, changes in VAT collections are inextricably linked to changes in the business cycle such that a decline in sales during any month shows up as a decline in VAT collections in the very next month when vendors submit their VAT returns.
- Accumulated deficits from the first three quarters of the year were covered by good collections of the fourth quarter. In this last quarter, VAT collections recorded a M15.6 million (+9.5%) surplus against the revised target.
- At M249.15 million, import VAT comprises 38% of the total VAT annual collection.

The LRA has computerised most previously manual systems in VAT and Income Tax

SACU Receipts

During the course of the year, SACU receipts amounted to M2,306 million. This comprised M1,983.9 million derived using the new SACU revenue sharing formula, plus M322.1 million in additional adjustments emanating from the old formula. Compared with M2,012 million receipts of 2004/05, this represents a M294 million (15%) increase in SACU receipts.

This rate of growth in SACU revenues resulted mainly from the transition from the old 1969 SACU agreement to the new 2002 agreement. As such, it is not expected that this growth rate will be sustainable, as it has resulted from a one-off change in revenue sharing arrangements.

A comparative analysis of the new and old formulae is presented in Box 2 below.

The Mohale'shoek Advice centre servesThe southern districts from Mafeteng to Quthing

Box 1: Calculation of Corporation Tax – The Lag Effect

Corporation Tax is paid by registered companies out of their profits at a rate prescribed by law. Since profits are declared at the end of the financial year and only after an audit of the financial statements, LRA is unable to base its assessment of corporation tax for the current year on the profits of the same year.

To address this issue, the law provides for the assessment of tax payable in the current year to be based on profits of the previous year.

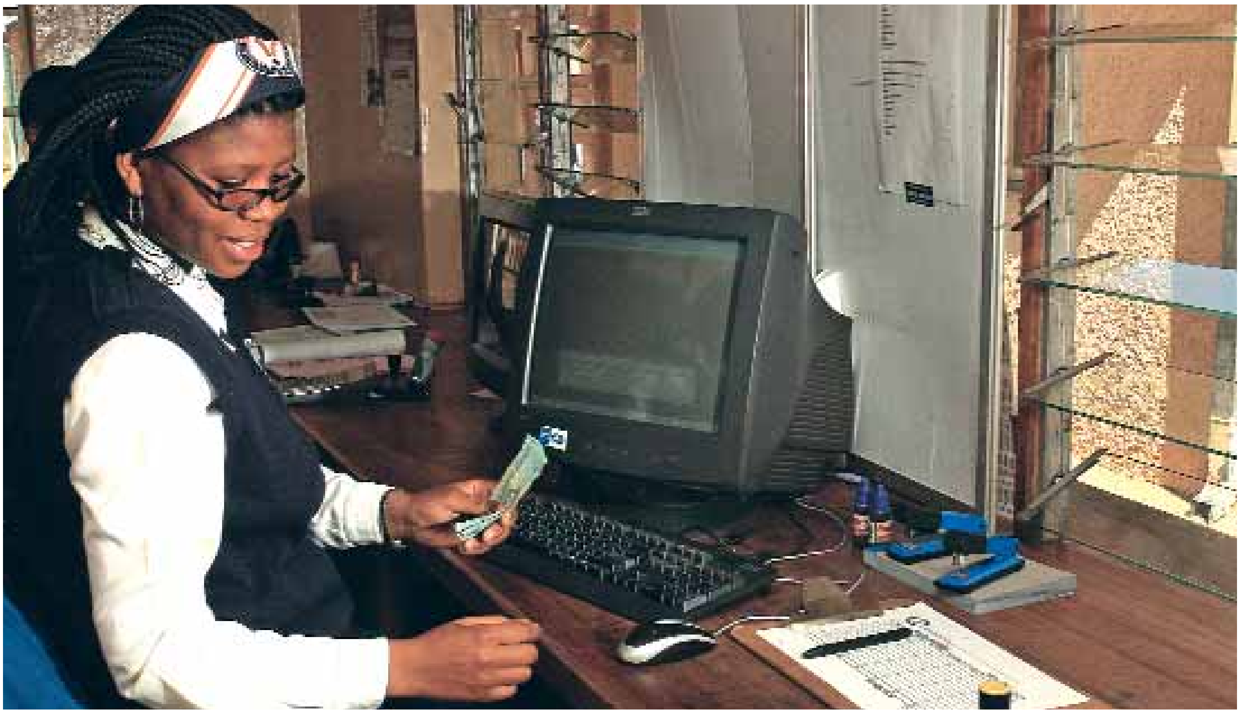
Corporation Tax payments are due in September, December and March; and corporations are required to submit their annual returns to the LRA by the end of June each year. In this way, a company that generated a taxable profit of M1 million in year x, on which a Corporation Tax payment of M350,000 would have been due, will pay M350,000 in three equal installments September, December and March in year (x+1).

Excess payments of tax, as indicated in this example, would be either refunded or credited against future payments of Corporation Tax.

Box 2: The New SACU Revenue Sharing Formula

In 2002, the SACU Heads of State ratified a new SACU Agreement (SACUA).This agreement ushered in a revised administrative arrangement for the regional body. One of the major changes in the new SACUA was in the basis for sharing of revenues collected in the common revenue pool. To achieve this, the old 1969 revenue sharing formula was replaced by a new one. The differences between the two formulas can be sumarisd as follows;

1969 Agreement	**2002 Agreement**
With the exception of RSA, member countries share according to a prescribed formula. RSA receives the residual share of the common revenue pool.	All member countries, including RSA, share in the revenue pool according to a prescribed formula
With the exception of RSA, all countries secure, as their share, between 17% and 23% of the value of their total imports plus domestic production of excisable goods	All member states, including RSA, share pro rata in three components of the pool; (i) Customs component based on intra SACU imports of the member country (ii) Excise Component based on a member's GDP relative to total SACU GDP (iii) Development component of based on GDP per capita. 15% of the excisable is put aside for this component
The shares of all other countries except RSA are not affected by the size of the pool.	All member states share in the pool and cannot exceed the size of the pool
Shares of countries are based on data of two years ago (t –2).	All members share revenue based on expected revenue in the current year (t).
Except for RSA, shares of countries are subject to revenue adjustments as trade data (and therefore the pool) of members changes after sharing of revenue.	No adjustments are allowed because of trade data changes.



Customs officers also collect import VAT at all border posts

Box 3 – Revenue Foregone

As outlined in Section 23 of the LRA Act, the Annual Report must report on the revenue foregone because of exemptions, mitigations or deferrals that are granted by the Minister of Finance and Development Planning and published in the Gazette. In the year of reporting, there were no such notices published.

However, the Government of Lesotho's pro-poor policy of zero-rating basic foods and agricultural inputs has cost M204.06 million in terms of tax revenue foregone. In addition, the rate of 5% for the supply of electricity and telecommunications services continued. The tax foregone from electricity, telecommunications and other services that have been exempted from VAT amounted to M26.78 million.

OPERATIONAL DEVELOPMENTS DURING THE YEAR

Increased Focus on Building Tax Compliance

During the course of this year, LRA enhanced its focus on taxpayer support initiatives with a view to building a sustainable compliance culture within the taxpaying community. To this end, a number of initiatives were undertaken by the three operating divisions. These initiatives were premised on the following underlying principles:

- Making it simpler and less costly for the compliant taxpayer to comply
- Educating and supporting taxpayers to ensure accurate and timely compliance by those willing but unable (due to lack of understanding) to comply
- Making it difficult and risky for the non-compliant taxpayer to continue with non-compliance.

The premise of these initiatives has been an acknowledgement by the Authority that taxpayers are not homogenous. As such, the Authority faces the joint challenges of supporting willing taxpayers to comply with their obligations accurately and promptly; and it also faces the related challenge of ensuring that the tax laws are administered fairly, by ensuring adequate enforcement measures are undertaken against those who are unwilling to comply with their legal tax obligations.

The following initiatives were undertaken to support this approach:

Supporting the Willing Taxpayer – Decentralization of Advice Centre Services

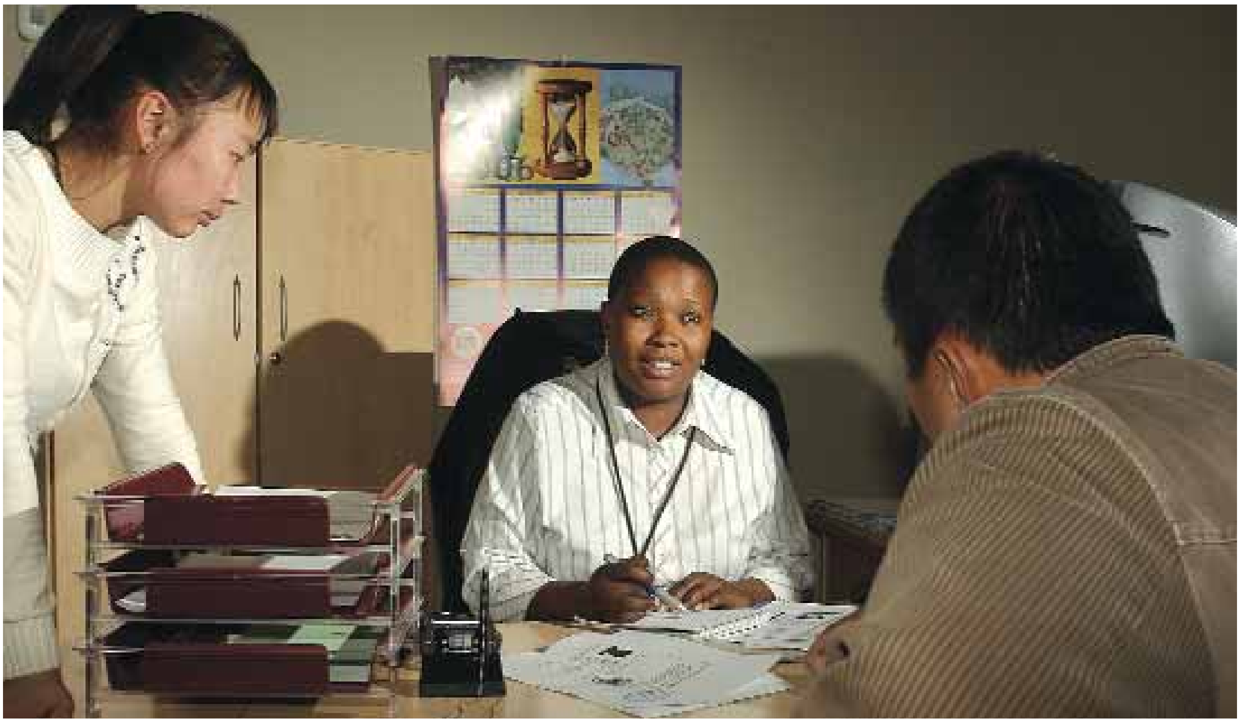
In reaching out to the public, the LRA added to the already existing Advice Centre is Maseru by establishing two regional Advice Centres in Leribe (north) and Mohale's Hoek (south) with the overarching objective of making the LRA more accessible to taxpayers. This became the first step of a wider decentralisation drive by the Authority planned for the future.

Table 2 below provides a summary of services provided at the three advice centres during 2005/06:

Table 2: Services provided at Regional Advice Centres

Income Tax	VAT	Customs & Excise
Registration	Registration	Rebates
• Companies • Sole Traders • Employees, etc.	• Companies • Sole Traders, etc. De-registration	
Clearances	Clearances	Inspection (exports)
Directives	Car clearances	Sample inspection
Payments & refunds	Payments	CCA1 forms
Returns & Financial statements	Returns	F178 (Exchange control declaration)

Van Rooyen's Gate, Mafeteng, serves taxpayers mostly coming from Wepener and neighbouring Eastern Cape towns



Taxpayers get advice and assistance on all Tax related matters at Mohale'shoek Advice Centre

Table 3 presents the statistics of services provided by these centres. A year-on-year comparison of the usage of the facilities by the taxpaying public is presented in table 3 below.

The following are notable from the table:

- When the Maseru Advice Centre was opened in 2004/05, there was a very substantial uptake in the usage of the facility as taxpayers sought to understand basic compliance procedures such as registration, tax filing and importation. It is expected that this trend will gradually decline as more and more taxpayers grasp the procedures and therefore comply with minimal guidance. The overall year-on-year 7.8% decline is indicative of this trend.

- Car clearances increased by a significant 51.8% in 2005/06 compared to the year before. This is indicative of two major developments. Firstly, the success of operation Mokorotlo which targeted foreign registered vehicles to convert them to domestic registration and, secondly, the surge in imports of used vehicles from Asia following the easing of import procedures by the Government.

- The introduction of the Self Assessment System (SAS) of income taxation in 2004/05 saw many taxpayers increasingly needing guidance on the compliance procedures in that year. This trend continued into the second year with, for example, a 54.7% increase in the demand for payments services recorded for income tax between the two years. This, compared with 11% increase for VAT for the same service, shows the increasing support that the Advice Centers continue to provide to the fledgling SAS. Indeed, mainly due to the SAS, the general demand for Income Tax services at the advice centres increased by a substantial 20% compared to a 5.8% increase in VAT an a 38% decline in Customs demand.

Table 3: Usage of Advice Centre Services

Tax Type	Service	2005/06	2004/05	Variance	% Variance
Income Tax	**Registration**	**3,398**	**3,512**	**-114**	**-3.2**
	Clearances	10,546	9,016	1,530	16.9
	Directives	3,988	0	3,988	100
	Payments	4,511	2,916	1,595	54.7
	Returns	6,852	4,288	2,564	59.8
	Refunds	1,204	3,824	-2,620	-68.5
	General information	3,112	4,416	-1,304	-29.5
	TOTAL	**33,611**	**27,972**	**5,639**	**20.2**
VAT	Registration	98	104	-6	-5.8
	Clearances	9,459	8,508	951	11.2
	Car clearance	7,558	4,980	2,578	51.8
	Returns	3,116	4,836	-1,720	-35.6
	Payments	601	540	61	11.3
	General information	2,533	3,120	-587	-18.8
	TOTAL	**23,365**	**22,088**	**1,277**	**5.8**
Customs	Rebate certificates	2,329	4,464	-2,135	-47.8
	Inspections (export)	1,554	2,472	-918	-37.1
	Sample inspection	1,864	3,548	-1,684	-47.5
	CCA1 forms	927	1,524	-597	-39.2
	F178	3,119	3,936	-817	-20.8
	General information	361	540	-179	-33.2
	TOTAL	**10,154**	**16,484**	**-6,330**	**-38.4**
GRAND TOTAL		**67,130**	**72,800**	**-5,670**	**-7.8**

Imported fabrics for the textile industry being inspected at the state warehouse

- The significant decline in the demand for Customs services (38%) is reflective of the widespread export-manufacturing factory closures that took place in the year under review. These closures were due to a combination of factors, principal among which were the ending of the Multi-Fibre Agreement, and the strength of the Loti against the US Dollar. These factors had the combined impact of introducing new competition into the market, reducing the guaranteed market for textiles and garments of Lesotho origin, and increasing operational costs relative to income. Even for those that weathered the storm and remained operational, the level of export volumes dropped significantly leading to a concomitant decline in demand for Customs support services.

Supporting the Willing Taxpayer – Taxpayer Education

Tax Clinics

Although more still needs to be done, notable strides have been made in this regard. In 2005/06, the LRA held tax clinics for a wide cross-section of the business community and society in general. These clinics took the form of collaboration between LRA, Government Ministries, various business associations and the banking sector.

Most of these initiatives were based on the taxpayer feedback coming out of the three Advice Centers, the radio program and information gathered by officials. In this way, the Authority enhanced its responsiveness to taxpayer needs.

The following divisional initiatives exemplify the Authority's taxpayer education and support drive in 2005/06.

Income Tax

- Presentation in a refresher course organized by Lesotho Institute of Accountants to accounting staff of the prominent companies and parastatals.
- Special tax clinics to accounting and human resource staff of some corporate bodies on source taxes.
- Tax clinic held in Berea for the youth engaged in commercial and community development activities.
- Collaboration with a local commercial bank in their nationwide education campaign aimed at Small and Medium Enterprises
- Various workshop organized by Government Ministries. Examples include workshops for general cafes and security companies organized by the Ministries of Trade and of Home Affairs respectively.

VAT

- Lesotho Electricity Corporation to clarify certain aspects of the VAT system.

Customs

- On-going liaison with exporters and clearing agencies to enhance the efficiency, effectiveness and security of import and export clearance procedures
- Collaboration with the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) towards the establishment of a one-stop facility for services offered to the manufacturing exporters. Customs played a pivotal role in the design of this facility and will be providing Customs Officers on an attachment basis to this facility in 2006/07.

Mokhafisi Radio Program

The Authority's publicity and information campaign was anchored strongly on the weekly Mokhafisi Radio program aired on Radio Lesotho. The program has also been successful in facilitating two-way communication between the Authority and the taxpaying public at large.

Enforcement Measures

Even with the most easily accessible and simplest of tax regimes, there will still be a few taxpayers who are determined to undermine the system to their own personal benefit. This therefore calls for enforcement measures targeting such deliberately non compliant taxpayers.

To that end, the Authority also planned and implemented a series of enforcement measures in 2005/06. The following are worthy of mention;

Operation Mokorotlo

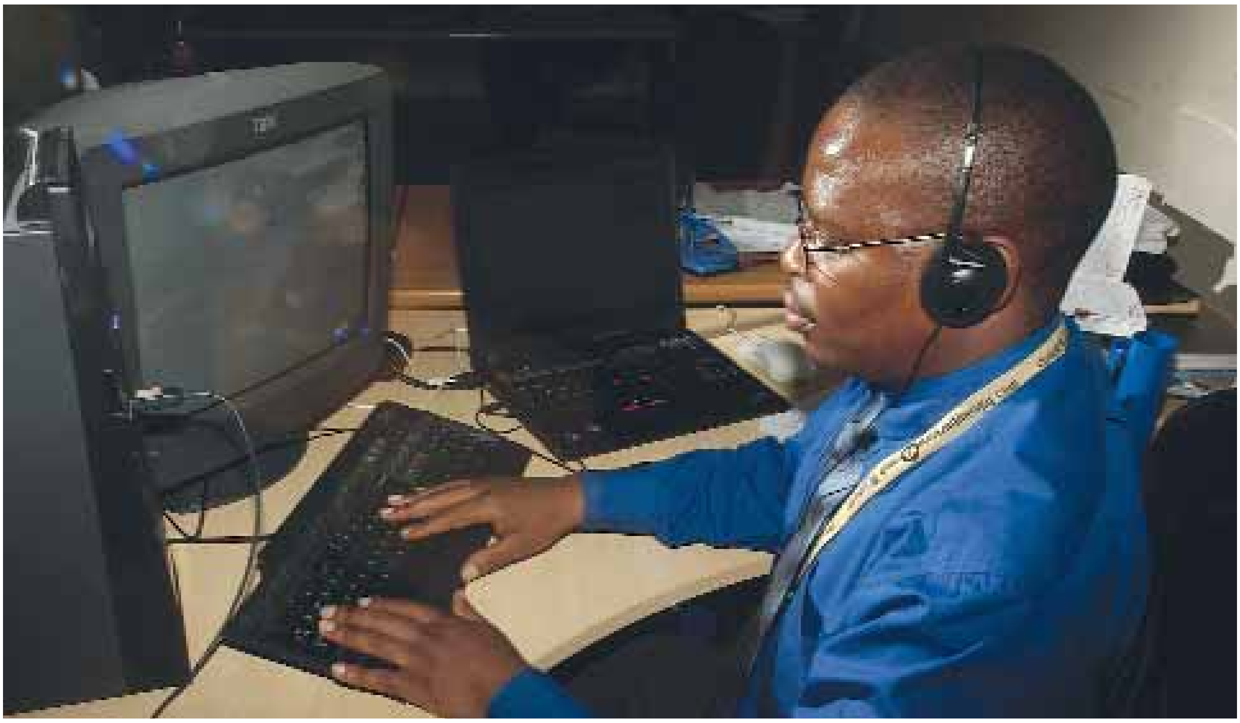
The prevalence, throughout the entire country, of foreign registered vehicles owned by Lesotho residents is a long-standing problem which results in non compliance to both the VAT and the Road Traffic Acts. The tax implication of this problem is the non payment of import VAT for such vehicles and therefore an erosion of the fiscus.

Towards enforcing both Acts, the Authority joined forces with the Road Traffic Department and the Lesotho Mounted Police Service (LMPS) in an Operation dubbed Operation Mokorotlo. The operation has been largely successful in both sensitising the general public to this problem and also urging owners of such vehicles to convert to local registration.

Partly due to this operation, vehicle registration at the LRA Advice Centers increased by 52% between 2004/05 and 2005/06. The operation is an example of successful collaboration between the Authority and the other stakeholders such as LMPS and the Traffic Department. The operation continues with a view to combating new transgressions.

Rooting-out Corruption

During the course of the year, the Authority strengthened its anti corruption capabilities by establishing the Central Investigations Unit (CIU) with wide ranging powers to investigate and combat all acts of corruption, smuggling and fraud by the taxpaying public. This Unit complements the Internal Affairs Unit (IAU) which focuses on identifying and prosecuting corruption within the Authority.



Information technology (IT) systems for VAT and income tax are continually updated to meet taxpayers requirements and efficient service delivery

Together, these two Units have significantly intensified the Authority's fight against all forms of corruption. As at the end of the year, there were eight active internal cases of corruption involving LRA staff; three were dismissed and five were still on suspension pending the outcome of investigations.

There were several other cases undergoing investigations to establish the veracity of allegations prior to taking any action.

Since the establishment of CIU in June 2005, thirty-one cases have been handled by the Unit and the status is shown in Table 4.

Table 4: Case Statistics

Status	Number of Cases
Concluded cases	3
Settled out of Court	1
Ready for Court	4
Referred to DCEO	1
Under investigation with LMPS/ DCEO	2
Under investigation	11
Investigation withdrawn	2
Awaiting/Under tax audit	5
Cascaded from investigation to demanding debt owing	2
Total	**31**

In pursuit of sustaining stakeholder relations, IAU and CIU continues to engage with stakeholders such as the LMPS, NSS, DCEO and SARS. These formal interactions have resulted in closer links, culminating in useful information exchange and mutual assistance relations.

ENSURING SUSTAINABILITY OF THE AUTHORITY

To ensure that the LRA remains a sustainable and viable organization, the Board and Management have placed a significant focus on staff training and general capacity building initiatives. In this regard, the following are notable developments for the year under review;

Memorandum of Cooperation (MoC) - LRA/SARS

LRA and SARS signed a Memorandum of Cooperation (MoC) with an intention of facilitating mutual capacity development through shared training and skills exchange. Signed at the end of July 2005, the MoC has seen the Authority benefiting from attachments and in-house programs offered by SARS to LRA staff. The training has been largely focused on developing technical skills of LRA staff in such areas as tax auditing and tax investigations & intelligence.

Enhancing Business Processes

In its bid to further improving service delivery to taxpayers, the Authority embarked on an computerization project meant to integrate both VAT and Income Tax processes. As at the end of the year, a new computer system for the two tax types was in the final stages of implementation.

In close collaboration with SARS, the Customs Division initiated fruitful collaborative plans with SARS Customs to integrate business processes at our border posts to facilitate a secure and seamless flow of trade and people between our two countries. The two administration are working towards establishment of one-stop border arrangements to simplify declaration procedures.

Furthermore, the Authority implemented an automated, integrated Financial and Human Resources Management Information system in July 2005. This system has enabled the Authority to better account for the revenue that it collects while also enhancing the management of human resources.

Challenges for the Years Ahead

During the course of the year under review, the Authority developed the second Strategic Plan for the period 2006 - 2009. This plan places emphasis on the following;

- **Revenue Collection**

  Strategic initiatives have been developed to widen the tax net and promote voluntary compliance. The emphasis will be on promoting a conducive environment for tax compliance through taxpayer support and education.

- **Fair and Effective Revenue Environment**

  The LRA acknowledges its role in creating a conducive environment to promote economic growth through maximizing revenue collection. To this end, the LRA will invest in business processes and in its staff for effective and efficient running of the Authority.

- **Voluntary Compliance**

  Promoting voluntary compliance among taxpayers is the cornerstone of a successful revenue regime. Key strategic initiatives will include improving customer relations and intensifying taxpayer education.

- **A Strong and Sustainable Organization**

  The paramount challenge of the Authority for the next three years is to ensure sustainability of the Authority. Some strategic initiatives will planned and carefully implemented to ensure that the LRA is sustainable over time. Key amongst these initiatives

*LRA airs a weekly radio programme "**Mokhafisi**" on Radio Lesotho. The Programme has been a useful tax education driver for LRA*

will be the orgaisational review aimed at aligning the structure of the Authority with the strategic direction planned for the years ahead.

- **Corporate Image**

  The LRA is perceived as an effective organization but more remains to be done in improving its corporate image. An inevitable challenge is to transform the Authority to adopt taxpayer-centric approach in its operations and to be seen to be communicating effectively with taxpayers. To achieve this, a Communications strategy will be developed and implemented.

- **Fighting Corruption**

  The fight against corruption is one of the key success factors that the Authority has identified if it to achieve all other plans. To this end, the Authority will continue to leverage its already strong relations with the DCEO and the Police, towards fighting the scourge of corruption. The Authority will develop and implement a comprehensive anti-corruption strategy.

Dr Charles Jenkins
Commissioner General

FINANCIAL STATEMENTS

for the year ended 31 March 2005

Vehicle inspection at Maseru Bridge and other ports of entry is a common scene done with the cooperation of taxpayers

AUDITED FINANCIAL STATEMENTS

The annual financial statements presented have been audited by Moores Rowland and approved by the Board of Directors of LRA. The accounts cover a twelve month period starting from April 1, 2004 to March 31, 2005. This section summaries the annual accounts and their implication to Lesotho Revenue Authority.

The Income Statement of the Authority shows a total income of M85,5 million. Of this Income, M71,9 million was paid by the Government of Lesotho (GoL). This portion of the funds is determined by the LRA Act 2001 and represents 2% of tax collection estimates for the financial year 2004/2005. The LRA's other Income comprises DFID's contribution of M11,5 million, interest received from LRA's own bank accounts amounting to M1,7 million and storage fees of M0,4 million. The Total expenditure for 2004/05 was M87,9 million, resulting in the LRA incurring a deficit of M2,4 million.

Although the accounts show a deficit, this is purely due to a revaluation of assets. When LRA came into operation, it signed a Memorandum of Understanding (MoU) with the GoL. The MoU provided for the LRA to take over the assets which were previously held by the Revenue Departments: Customs and Excise, Income Tax and Sales Tax. Not all of these assets were accounted for in the previous financial year. To correct for this, an asset register was constructed and the total LRA assets were revalued. The new valuation was M73,3 million, which represented an increase of M40.6 million. As a consequence of this revaluation, the accounting expenditure on depreciation increased by M5,1 million. Had the LRA not revalued its overall assets, depreciation costs would have been inline with the budget and the spending would have been within allocation.

The deficit resulted in a Net Cash Flow from Operating Activities of M7,4 million. However, the Ministry of Finance and Development Planning has already taken steps to ensure the sustainability of the Authority. For 2005/06, the LRA will be funded from 2,5% of the tax collection estimates. And it is hoped that from 2006/07 onwards, the Authority will receive an equivalent amount of funding but based solely on the estimates of Income Tax and VAT collections.

Dr Charles Jenkins
Commissioner General

STATEMENT OF RESPONSIBILITY OF THE GOVERNING BOARD IN RELATION TO THE FINANCIAL STATEMENTS

The Governing Board is responsible for monitoring the preparation and for the integrity of the Financial Statements and the related information included in this report.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The Board has ultimate responsibility for the system of internal controls and reviews its operation through close involvement of the Commissioner General.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the organisation's policies and procedures. These controls are implemented by trained personnel with appropriate segregation of duties. They are also monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and appropriate framework.

The Financial Statements are prepared in accordance with Statements of Lesotho Generally Accepted Accounting Practice (GAAP) and they are based on appropriate accounting policies supported by reasonable and prudent judgment and estimates. The GAAP, in this regard, include statements of International Financial Reporting Standards (IFRS) as adopted by the Lesotho Institute of Accountants (LIA) which are therefore applicable in Lesotho. There are no events that occurred after the balance sheet date that would have a material impact on these Financial Statements.

These Financial Statements set out on pages 31 to 40 were approved by the Board, and signed on its behalf by:

Lineo Khechane
Board Chairperson
17 June 2006

Dr Charles Jenkins
Commissioner General
17 June 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LESOTHO REVENUE AUTHORITY

We have audited the books records and accounts of Lesotho Revenue Authority for the year ended 31st March 2006, and have obtained information and explanations, which to our knowledge and belief were necessary for the purpose of our audit.

RESPECTIVE RESPONSIBILITIES OF GOVERNING BOARD AND AUDITORS

These financial Statements are the responsibility of the governing Board. Our responsibility is to report on these financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Generally Accepted Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. The audit included an evaluation of the appropriateness of the accounting policies; an audit, on a test basis, of evidence supporting the amounts and disclosure included in the financial statements; an assessment of the reasonableness of significant estimates: and a consideration of the appropriateness of the overall financial statement presentation.

OPINION

We consider that our audit procedures were appropriate in the circumstances to express our comments presented below.

The Authority kept proper books of account as required by the Lesotho Revenue Authority Act, 2001 which are the basis for the financial statements set out on pages 20 to 29.

In our opinion these financial statements reflect a true and fair view of the state of the Authority's affairs at 31 March 2006 and of its operating results and cash flow for the period then ended and in accordance with International Financial Reporting Standards as adopted by the Lesotho Institute of Accountants.

Moores Rowland

Moores Rowland
Chartered Accounts (L)

Maseru
17 June 2006

INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2006

	Notes	2006 M	2005 M
INCOME			
Government funding		92 120 000	71 850 000
DFID grant received	12	11 037 720	11 527 261
Interest received		2 520 934	1 656 611
Storage income		429 302	411 925
Commission received		46 742	44 229
Other Income		119 830	41 128
Total income		**106 274 528**	**85 531 154**
EXPENDITURE			
Costs of collection:			
Staff related expenses		50 508 988	42 909 339
Inspection and enforcement expenses		1 798 327	1 887 712
Total costs of collection		52 307 315	44 797 051
Administration expenses:			
Staff related expenses		15 111 266	12 345 366
Administration expenses		18 925 827	18 977 209
Vehicle running expenses		980 748	288 815
Total administration expenses		35 017 841	31 611 390
DFID grant expenditure	12	11 037 720	11 527 261
Total expenditure		**98 362 876**	**87 935 701**
Surplus/(deficit) for the year	3	**7 911 652**	**(2 404 547)**

BALANCE SHEET

as at 31 March 2006

	Notes	2006 M	2005 M
ASSETS			
Non-current assets			
Property, plant and equipment	4	41 235 366	47 305 017
Current assets			
Accounts receivable	5	354 374	346 826
Bank and cash	6	37 462 039	25 868 060
Collection Accounts	7	42 654 938	49 911 099
		80 471 351	76 125 985
TOTAL ASSETS		**121 706 716**	**123 431 002**
CAPITAL AND LIABILITIES			
Capital and Reserves			
GOL funding	8	73 312 033	73 312 033
Accumulated surplus/(deficit)		(6 393 623)	(14 305 275)
		66 918 410	59 006 758
Non-current liabilities			
Provisions	9	10 526 262	6 867 523
Current liabilities			
Collection accounts	7	42 654 938	49 911 099
Accounts payable and accruals	10	1 607 107	2 064 606
Other payables	11	–	5 090 665
		44 262 044	57 066 370
TOTAL CAPITAL AND LIABILITIES		**121 706 716**	**122 940 651**

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

for the year ended 31 March 2006

	Notes	GOL Funding M	Accumulated excess expenditure over income M	Total M
Balance at at 01 April 2004		32 663 254	(10 059 488)	22 603 766
Surplus/(deficit) for the year ended				
31 March 2005		–	(2 404 547)	(2 404 547)
GOL funding		40 648 779	–	40 648 779
Prior year adjustment		–	(1 841 240)	(1 841 240)
Balance as at 01 April 2005		**73 312 033**	**(14 305 275)**	**59 006 758**
Surplus/(deficit) for the year ended				
31 March 2006		–	7 911 652	7 911 652
Balance at 31 March 2006		**73 312 033**	**(6 393 623)**	**66 918 410**

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	2006 M	2005 M
CASH FLOW FROM OPERATING ACTIVITIES			
Surplus/(deficit) for the year		7 911 652	(2 404 547)
Adjustment for:			
Depreciation		7 866 966	8 430 084
Prior year adjustment		–	(1 841 318)
Gain on disposal		(81 801)	–
Changes in working capital:			
Increase in accounts receivable		(7 548)	(171 641)
Decrease in accounts payables, accruals, provisions, collection accounts and interest accrued		(9 635 938)	(11 681 341)
Net cash outflow from operating activities		**6 053 331**	**(7 668 763)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1 986 405)	(44 814 457)
Proceeds on disposal of assets		270 892	–
Net cash outflow from investing activities		**(1 715 513)**	**(44 814 457)**
CASH FLOW FROM FINANCING ACTIVITIES			
GOL capital funding		–	40 648 779
Net cash inflow from financing		**–**	**40 648 779**
DECREASE IN CASH AND CASH EQUIVALENTS		**4 337 818**	**(11 834 441)**
CASH AND CASH EQUIVALENTS AT 01 April 2005		**75 779 159**	**87 613 600**
CASH AND CASH EQUIVALENTS AT 31 March 2006		**80 116 977**	**75 779 159**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1. BACKGROUND

Lesotho Revenue Authority (LRA) was established in 2001 in terms of the Lesotho Revenue Authority Act No. 88 of 2001. LRA started operations on 1 September 2002, but was officially launched on 27 January 2003. Its year-end is 31 March. As a result thereof, the Financial Statements are for the year ended 31 March 2005. LRA's objective is the efficient and effective collection of revenue on behalf of the Government of Lesotho. To this end the LRA is required by the Act to:

– Administer and enforce the laws set out in the; Customs and Excise Act 1982, Income Tax Act 1993, Sales Tax Act 1995 and Value Added Tax Act 2001.

– To promote voluntary compliance with tax laws;

– To 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.

  To take such measures as may be required or necessary to counteract tax fraud and other forms of fiscal evasion.

– To advise the Minister on matters of revenue policy and matters relating to the administration and collection of revenue under the laws listed above;

  To perform such functions in relation to revenue, as the Minister may direct.

– To keep proper books of account and other records which disclose with reasonable accuracy the financial position of the Authority.

2. STATEMENT OF ACCOUNTING POLICIES

2.1 Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting, and comply with Generally Accepted Accounting Practices (GAAP) and therefore with the International Financial Reporting Standards (IFRS) as adopted by the Lesotho Institute of Accountants and which are therefore applicable in Lesotho.

2.2 Income

Income represents funds received from the Government of Lesotho, interest on investments, storage income and grants and commission received during the period. Income is accounted for by using the accrual basis of accounting and taking into account the terms of the relevant agreements. DFID grant received is accounted for in accordance with the Policy stated in note 12.

2.3 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over its estimated useful live as follows:

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

2.4 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.5 Employee benefits

Short term employee benefits

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

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

Long-term employee benefits

The Authority is bound to two long term benefits:

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

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

2.6 Financial assets and liabilities

Financial assets

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

Financial liabilities

Financial liabilities are classified according to the substance of the contractual agreement entered into.

Significant financial liabilities include accounts payable and accruals, stated at their nominal value.

3. EXCESS EXPENDITURE OVER INCOME

	2006 M	2005 M
Excess expenditure over income is stated after charging:		
Board fees and expenses	886 920	728 598
Auditor's remuneration	287 988	252 700
	1 174 908	**981 298**

4. PROPERTY, PLANT AND EQUIPMENT

	Cost M	Accumulated depreciation M	2006 Carrying amount M	2005 Carrying amount M
Owned assets				
Movable property	41 015 666	10 479 935	30 535 731	–
Land	29 128	–	29 128	29 128
Motor vehicles	5 774 611	3 295 502	2 479 109	2 718 397
Furniture and fittings	4 926 923	1 153 755	3 773 168	1 584 924
Office equipment	2 729 572	1 118 030	1 611 542	568 470
Computer equipment	5 967 662	3 160 975	2 806 687	6 019 725
	60 443 562	**19 208 197**	**41 235 365**	**10 920 644**

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

FOR THE YEAR ENDED 31 MARCH 2006	Carrying amount at beginning of period M	Revaluation adjustments/ Additions M	Revaluation adjustments/ Depreciation M	Carrying amount at end of period M
Owned assets				
Movable property	–	40 873 494	7 320 989	33 552 505
Land	29 128	–	–	29 128
Motor vehicles	2 718 397	2 184 614	1 361 987	3 541 024
Furniture and fittings	1 584 924	2 791 997	418 339	3 958 582
Office equipment	568 470	1 765 417	513 556	1 820 331
Computer equipment	6 019 725	(2 801 066)	(1 184 788)	4 403 448

5. ACCOUNTS RECEIVABLE

	2006 M	2005 M
Deposit	66 088	43 344
Prepayments	73 128	238 190
Accrued interest	67 056	62 869
Accounts receivable	148 102	2 422
	354 374	**346 826**

6. BANK AND CASH

Bank balances	9 666 246	14 335 538
88 day deposit account	12 278 637	11 511 925
Other short-term deposits	15 499 291	–
Cash on hand	17 865	20 598
	37 462 039	**25 868 060**

7. COLLECTION ACCOUNTS

VAT call account	16 110 291	18 323 758
VAT current account	(10 266 730)	(29 237 569)
Income Tax bank call account	52 213	47 229 865
Income Tax bank current account	(717 345)	(49 219 303)
Income Tax bank current account	688 661	(56 517)
LRA refund account	275 755	–
	6 142 844	(12 959 766)
SACU Accounts		
Current account	3 769 464	3 921 418
Customs and Excise bank accounts	32 742 938	58 949 447
	42 654 938	**49 911 099**

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

8. GOVERNMENT FUNDING

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance and Development Planning) and the Lesotho Revenue Authority provided for the transfer of all assets (non-moveable and moveable) free of charge, previously held by the Departments of Customs and Excise, Sales Tax and Income Tax, to the Lesotho Revenue Authority. These assets and crediting GOL Capital Funding, which includes initial Government funding for start-up costs.

9. PROVISIONS

	2006	2005
	M	M
Gratuity	7 077 407	4 256 651
Severance pay	3 448 855	2 610 872
	10 526 262	**6 867 523**

10. ACCOUNTS PAYABLE AND ACCRUALS

Creditors	352 636	2 064 606
Accruals	230 275	–
Salary deductions and provisions	1 024 196	490 351
	1 607 107	**2 554 957**

11. OTHER PAYABLES

This represents interest earned on collection accounts, payable to Government.

12. DFID GRANT RECEIVED AND GRANT EXPENDITURE

DFID (The UK Department for International Development) has allocated an amount of GBP 3 783 500 for technical assistance. No monies are received by LRA as suppliers for services rendered are paid directly, for services rendered. The expenditure incurred on an annual basis has been converted to local currency at the average exchange rate for the period with a corresponding figure as income, in line with International Accounting Standard 20 - Accounting for Government Grants and Disclosure of Government Assistance. Amounts received to date are as follows:

Period	GBP	Rate	Equivalent Maloti
2004	1 185 832	12,7827	15 158 158
2005	1 003 684	11,4850	11 527 261
2006	1 039 061	10,6228	11 037 720
			37 723 139

We commit to providing our Customers with:

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

In exchange, LRA expects the following from all Taxpayers:

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

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

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

Board Chairperson **Commissioner General**