LESOTHO REVENUE AUTHORITY



ANNUAL REPORT 2004/2005

HIGHLIGHTS

- Introduction of the Self Assessment System for Income Tax
- Successful Administration of Tax Amnesty with more than 850 applicants
- Introduction of Tax Payer Identification Numbers
- Aggregate tax collections growing at 16%
- 76% increase in VAT over Sales Tax Collections since its introduction
- Border Collections increase by more than 35% in 2004/05
- Introduction of a special "up front" refund payment system for exporters
- Introduction of a Performance Management and Development System
- Completion of a full Customer Satisfaction Survey
- Extension of Invoice Payment Method to non-Commercial Border Posts

C O N T E N T S

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

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, the 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. Despite operating outside the framework of the Civil Service and having access to appropriate mechanisms to ensure propriety, the Authority is fully accountable to Parliament and transparent accounting procedures.

VISION, MISSION AND OBJECTIVES

VISION

"To become the best Revenue Collection Authority in Africa."

In our efforts to achieve the vision, the LRA sees itself:

"To be an incorruptible, professional and efficient Revenue Authority providing excellent services whilst being fair, firm, dedicated and innovative."

MISSION

To maximise revenue collection through efficient, effective, sustainable and transparent systems aimed at developing a culture of voluntary compliance with tax laws, providing quality and responsive services to taxpayers and combating tax fraud and evasion.

CORPORATE OBJECTIVES

The Authority has the following Corporate Objectives:

Revenue Collection

To ensure maximisation of revenue collection for GOL.

Widening of Tax Net

To ensure that all taxpayers are registered within the tax payers system

Financial Management

To apply sound and effective financial management that will ensure the optimal utilisation of resources without corruption.

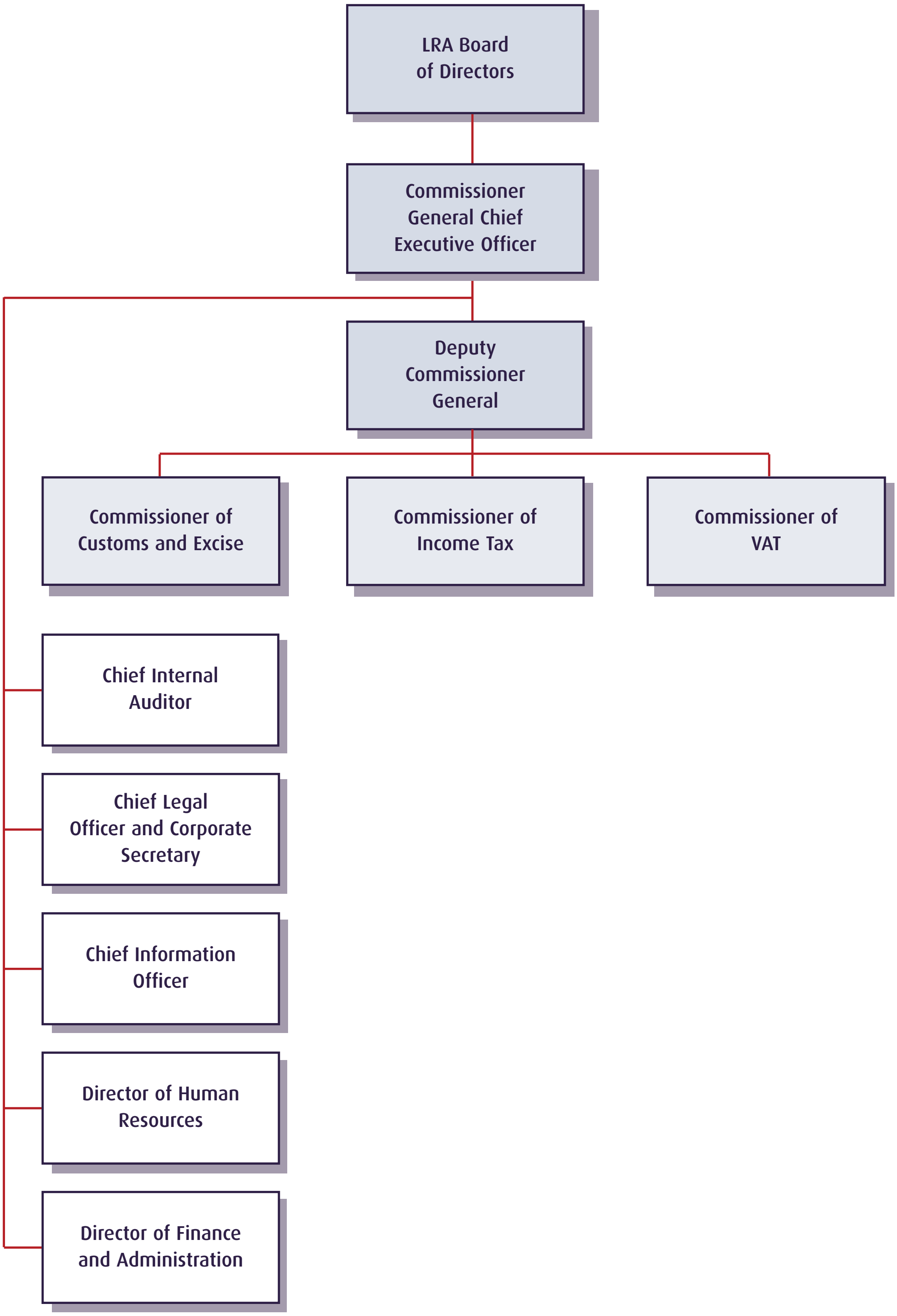
Stakeholder/Customer Relations

To maintain effective relationships with all stakeholders and customers in order to function optimally.

Organisational Effectiveness

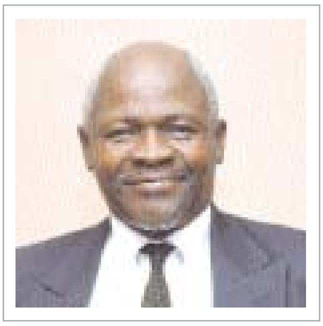
To ensure that LRA becomes a regional example in its effectiveness to carry out its mandate.

LRA ORGANISATIONAL STRUCTURE



G O V E R N I N G   B O A R D

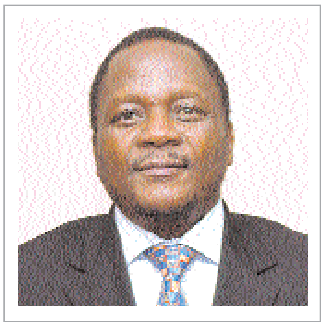
Ms Lineo Khechane
Chairperson
Ministry of Finance and Development Planning



Mr Thuso Thokoa
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

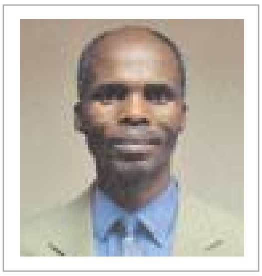
Ms Leonia Lephoto
Central Bank of Lesotho

Mr Robert Likhang
Nominated by the Minister of Finance and Development Planning

SENIOR MANAGEMENT

Mr Kevin Donovan
Commissioner General

Mr Thabo Khasipe
Deputy Commissioner
General



Mr Nthako Sekome
Commissioner
Income Tax

Mr Thabo Letjama
Commissioner
Customs & Excise

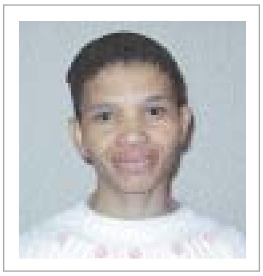
Mrs Maleshoane Morakabi
Commissioner
Value Added Tax

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

My last report focused on the establishment of the Lesotho Revenue Authority (LRA) and covered a fifteen month period commencing in January 2003, when the Authority became fully operational. This report, which relates to the financial year 2004/05, is the second in the short and prosperous life of the Authority and presents an overview of our operations against the Corporate Plan.

As the Commissioner General's report indicates, the Authority was able to consolidate the gains from its inaugural year, most notably, the introduction of Value Added Tax (VAT), in July 2003. As is to be expected with any major change, significant challenges still remain before we are able to maximise the benefits of these systems.

THE CORPORATE PLAN

The Board adopted a Corporate Plan during the LRA's first year of operation. The plan charts a path for the Authority for the period spanning the three years from 2003/04 to 2005/06.

The Corporate Plan sets out a series of strategies and actions in relation to revenue collection, widening of the tax net, financial management, stakeholder/customer relations and organisational effectiveness. The Commissioner General's report presents a detailed account of activities that were undertaken in pursuit of these strategies. For my part, I am pleased that many of the identified key performance outputs were delivered. For those that were not and still remain relevant, the Board will ensure that they are covered in either the next financial year or subsequent Corporate Plans.

ACHIEVEMENTS IN 2004/05

This financial year saw the Authority making significant strides towards fulfiling its corporate mandate.

The Tax Amnesty was prompted by our desire to widen the tax net. Whilst it generated some revenue, the amnesty was primarily aimed at providing non-compliant taxpayers with an opportunity to bring their tax affairs up to date and start on a clean slate. In terms of this objective, the amnesty was a success.

The introduction of the Self Assessment System, in April 2004, on the other hand, did not fare as well as initially planned in terms of compliance. It is hoped that as a result of further taxpayer education, the filing rate will increase substantially.

The cooperation between LRA and the South African Revenue Services (SARS) continues to yield significant benefits to the Authority in terms of cross-border case investigation and import VAT collection. In addition, a Memorandum of Cooperation has been drawn up with SARS Academy in order to enable training and human resource initiatives to be undertaken between the two organisations.

THE ROAD AHEAD – CHALLENGES AND PLANS

In my last report, I identified the funding issue as the single biggest challenge to the sustainability of the Authority. During the course of the year, the Authority and the Ministry of Finance and Development Planning jointly undertook a review of LRA funding in order to determine a level of funding which would secure viability of the Authority. The Minister duly approved an initial proposal for the LRA funding to be increased from 2% to 2,5% of the Financial Estimates in the Government Budget. On behalf of the LRA, I am thankful for the prompt and positive response displayed by the Ministry towards this critical matter.

However, the increase by 0,5% is only a temporary solution. A long-term funding mechanism which would be based solely on a percentage of the Income Tax and VAT revenues that are generated by the Authority is preferred by both the Ministry and the LRA. A major part of the Authority's revenue is currently composed of remittances determined by the

Southern African Customs Union (SACU) revenue sharing formula. However, these are predicted to decline in the years to come. It is therefore important to ensure that for the future, the Authority is incentivised to maximise Income Tax and VAT collection efforts and, by extension, recoup its own share of such revenue.

It is my hope and that of the Board and Management of the Authority that this matter will be settled in time for the 2006/07 financial year. Meanwhile, the Authority's sustainability will remain a major concern of the Board.

Operationally, the Authority faces a challenge of improving its business processes to make it simpler for taxpayers to pay their dues. The time and effort it takes to comply with our tax laws are, in effect, part of the compliance costs. Overly complex tax return forms, unclear instructions and operational inefficiencies all act as barriers to tax compliance, particularly with regard to the small and medium businesses.

During the year, the Authority undertook a Customer Satisfaction Survey in order to obtain the views of the taxpayers and of its staff with regard to how the Authority was performing. The survey clearly indicated that not only did our stakeholders feel that we were lacking in all areas of customer care, but also that staff and taxpayers alike were failing to keep up with the changes in the tax laws and new systems and procedures.

To address these problems, a management development training programme has already been initiated, and during the year more focus will be necessary on customer care issues for front line staff at the border posts, Advice Centres and for audit teams. It will be imperative that, through these initiatives, the Authority significantly improves the way that it handles the taxpaying public.

At the same time, discussions are already at an advanced stage with the UK Department for International Development (DFID) to acquire funding for the computerisation of Income Tax by extending the current VAT computer system. The existing systems are manual, and the large volume of manual files, with poor recording and tracking, results in operational inefficiencies and gives rise to corrupt practices. With the predicted decline in SACU revenues and the success to date of VAT, it is clear that Income Tax represents the most significant source of untapped revenues. The plan is for the project to commence in June 2005 and to be completed before the end of the year.

Similarly, the European Union has agreed to provide one million Euros to fund the computerisation of Customs and Excise. Discussions in respect of the Grant Agreement are at an advanced stage between the European Union and United Nations Conference on Trade and Development (UNCTAD) and it is hoped that the computerisation process will be able to commence within the coming financial year.

Equally important is that the Board has identified the fight against both internal and external corruption as a major challenge for the coming year. The scourge of corruption has the potential to impact negatively on the achievements of the Authority. As such, the Board has directed management to adopt a stance of zero tolerance to corruption. Close collaboration with the Directorate of Corruption and Economic Offences and the Police is regarded as mandatory by the Authority for a holistic fight against corruption. The Board will continue to provide oversight to ensure that corruption does not affect the image of the Authority.

It would be remiss of me not to express, on behalf of the Board, my heartfelt gratitude to all the stakeholders of the Authority. By its very nature, tax collection is a difficult yet necessary business. The Authority is doing much to change the attitudes and perceptions of the public towards paying tax. What has been achieved to date could not have been managed without the unwavering support of the Board, Management and staff of the Authority. Mention should also be made of the financial support provided by DFID to the Lesotho Revenue Authority Support Project. I also wish to acknowledge the support and assistance provided by SARS, Zambia Revenue Authority and the New Zealand Inland Revenue and Customs Service who have each contributed in various ways to the success of the LRA.

The current Board of Directors reaches the end of its three year tenure in the early part of 2005/06. I want to take this opportunity to express my thanks to each

of the members of the Board for their diligence and commitment to what was a difficult mission. It goes without saying that I wish the next Board every success in their endeavours to carry forward the work of the outgoing Board.

Last but not least, I wish to acknowledge and thank the Minister and staff of the Ministry of Finance and Development Planning for the continued support and understanding that they have extended to the Authority.

Lineo

Lineo Khechane
Board Chairperson

INTRODUCTION

After the substantial gains made in its first year of operation, the Lesotho Revenue Authority (LRA) has continued to improve revenue collections and service delivery. In many respects, these improvements have followed the consolidation of advances made in the preceding financial year. This in itself is no small achievement, as experience of other revenue authorities across Africa has shown that there is a danger for new institutions to develop at a pace that is unsustainable.

In addition, the LRA has introduced a number of administrative initiatives to promote compliance, most notably the Tax Amnesty, the Self-Assessment System for Income Tax and the drive to localise vehicle registration, named *"Operation Mokorotlo"*. Other institutional changes such as the computerisation of Finance and Human Resource Management Information Systems (F&HRMIS) and the introduction of Tax Payer Identification Numbers have improved the allocation of resources within the LRA.

In this statement, I present a summary of the LRA's revenue performance before discussing the progress made in more detail.

REVENUE COLLECTION PERFORMANCE

Overview of Revenue Performance

The LRA's performance in 2004/05 is best assessed using a combination of comparison against target and comparison against the collections in the 2003/04 financial year. To provide this context, the remittances and targets are noted below in **Table 1**. It is immediately obvious that the targets set for 2004/05 were very challenging. The estimated increase in the Income Tax collections was based on the estimate of economic growth used in the Government's 2004/05 National Budget. In retrospect, this economic growth forecast was optimistic, as textile factory closures and retrenchments of miners in RSA have led to a slowdown in the economy.

The VAT target exhibited a 36% increase from the 2003/04 remittances. This increase was also based on the optimistic growth forecast mentioned earlier. Additionally, the target allowed for four extra months of VAT collection[1] and improved Government compliance.

The LRA missed the overall annual target reported in Table 1 by M18,69 million, equivalent to 1,2%. This under performance was almost entirely due to lower than expected collection of VAT, which follows from the sensitivity of consumption taxes to lower levels of economic activity. The comparison of remittances against targets is shown in **Table 2.**

Table 1: Past Remittances and 2004/05 Targets

	Remittance in respect of 2003/04	Target for 2004/05	% Increase
Income Tax	846,19	902,13	7%
VAT	498,92	678,25	36%
Total	**1345,11**	**1 580,38**	**17%**

[1] *2004/05 was the first full year of VAT. In 2003/04, Sales Tax was still in place for the first quarter and July.*

Table 2: Remittances against Targets

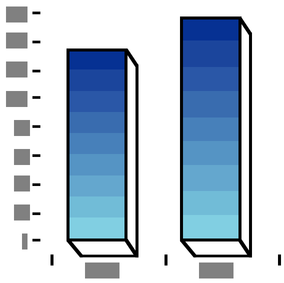
	Remittance	Target	Variance	% Variance
Income Tax	901,88	902,13	-0,25	-0,03%
VAT	659,82	678,25	-18,43	-2,72%
Total	1 561,70	1 580,38	-18,69	-1,18%

Despite the picture painted by **Table 2**, the 2004/05 remittances, represent substantial growth over the collections made in 2003/04, with aggregate collections growing by 16,1%. This growth in remittances is shown both in **Table 3** and in **Figure 1**.

Table 3: 2004/05 Remittances against 2003/4 Remittances

	2003/04	2004/05	Variance	% Variance
Income Tax	846,19	901,88	55,69	6,58%
VAT	498,92	659,82	160,9	32,25%
Total	1 345,11	1 561,70	216,59	16,10%

**Figure 1:
Remittance of 2003/04
and 2004/05**



ANALYSIS OF TAX REVENUE

The LRA has full control over the collection of Income Tax and VAT, and as such the LRA's performance is best assessed on collections of these tax types. While the LRA does collect Customs and Excise duties, the collections are remitted to the common revenue pool of the Southern African Customs Union (SACU). Lesotho's share of this pool is determined by a revenue sharing formula, which is not linked to LRA collections. The analysis of each tax types is as follows:

Income Tax

Collections of Income Tax contributed 58% of total LRA remittances. The most important component of Income Tax is Personal Income Tax, which yielded M567,54 million, and represents a growth of 12% over last year.

In contrast with 2003/04, remittances of Company Tax display a fairly stable trend throughout the year. This stability is mainly as a result of the new Self-Assessment System (SAS) system, which requires that companies make quarterly instalments. Collections of other taxes were in line with expectations. The quarterly performance of each tax type is shown in **Table 4.**

The quarterly performance shows that collections of Income Tax displayed a positive variance during the first three quarters and a negative variance in the last quarter, which was caused primarily by earlier than expected payments of tax on annual bonuses.

Overall, when the decline in the levels of economic activity is taken into account, the collections are in line with expectations, consolidating the 26% increase from 2003/04 and growing by a further 6,5%.

As I noted in last year's report, the LRA had been preparing to implement the new Income Tax Self-Assessment System which was legislated in 1993 and was never implemented by the previous administration. The introduction of the Self-Assessment System (SAS) in April 2004 was a large step and, despite considerable publicity and a programme of taxpayer education seminars, there was widespread non-filing and under-declaration. Of the 9 630 self-assessment forms sent out, only 2 951 were returned and many of these contained a nil assessment. The extent of this non-compliance made corrective action difficult and collections suffered as a consequence. I am following up on those who did not file and, if necessary, will take legal action against them. In 2005, it will be essential for the Income Tax Division to ensure businesses comply with the SAS.

Table 4: Quarterly Breakdown of Income Tax Remittances

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Personal Income Tax	117,96	155,34	152,28	141,96	**567,54**
Company Tax	44,48	53,96	68,28	52,38	**219,10**
Other Taxes	32,54	22,31	28,24	32,14	**115,23**
Total Income Tax	194,98	231,62	248,80	226,48	**901,88**
Targets	191,38	231,30	241,80	237,65	**902,13**
Variance	3,60	0,32	7,00	-11,17	**-0,25**
% Variance	1,88%	0,14%	2,89%	-4,70%	**-0,03%**

While preparing to take legal action, the Division has started the following initiatives:

- **Non-Filers:** Default assessments were made on non-filers and the staff went out to collect and demand payment of the amounts assessed. This initiative indirectly put pressure on the non-compliant businesses to file returns so they could be assessed on their actual, and not on their estimated, performance. The Division has gone further in identifying the non-compliant sectors and the business associations/groups. Workshops in the form of tax clinics were held and taxpayers trained on a number of tax issues. The local taxi associations and association of local restaurants and liquor distributors have benefited from these initiatives. The Division will now be focusing its attention on professionals including medical doctors, lawyers and accountants.

- **Businesses which filed but understated profits:**

From January 2005, the Division started comprehensive audits on businesses identified as having understated their performance. The programme covers 87 businesses in Maseru and 45 in other districts and is intended to be completed by early June 2005 before taxpayers file their 2005 returns.

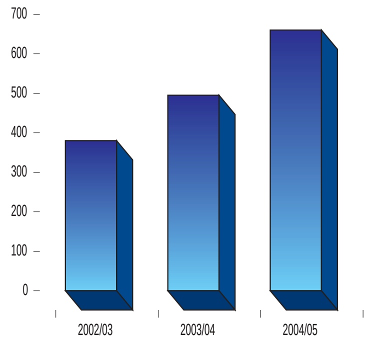
In the long-term, the LRA aims to improve compliance through continued focus on taxpayer education, including translation of materials into Sesotho, extended publicity, simplification of forms and procedures, and effective Income Tax and VAT joint audits.

VAT

In assessing the performance of VAT collections, it is important to remember that 2004/05 was its first full year of operation and that the target, agreed upon with the Ministry of Finance and Development Planning, required an annual growth in revenue of 36%. The challenge was compounded by the fact that this growth was expected on top of the 33% growth in VAT revenues during 2003/04.

The extent of year-on-year growth in revenues is illustrated in Figure 2.

Figure 2: Remittance of Sales Tax/VAT



Over the two years, there has been a 76% increase in remittances. While this has partially been due to the implementation of VAT at the higher rate and the decision to make the Government of Lesotho liable to VAT, it also reflects the collection efficiency brought about by the Authority. Indeed, without well functioning collection machinery, these reforms would not have yielded such significant returns.

Despite delivering an annual increase in VAT collections between 2003/04 and 2004/05 of 32%, the LRA missed the target by M18,43 million.

Table 5 shows the performance of inland and import VAT and the performance against quarterly targets.

Table 5 illustrates that collections of VAT deteriorated in quarters three and four. This can be explained by the slowdown in the economy, which negatively affects consumption taxes.

Table 5: VAT Remittances against Targets

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Inland VAT	58,54	67,23	60,77	55,10	**241,63**
Import VAT	99,27	94,31	118,20	106,40	**418,18**
Total VAT	157,81	161,54	178,96	161,50	**659,82**
VAT Target	156,46	161,01	185,24	175,55	**678,25**
Variance	1,36	0,53	-6,27	-14,05	**-18,43**
% Variance	0,9%	0,3%	-3,4%	-8,0%	**-2,7%**

must be retained for audit purposes. Throughout the year, the LRA has negotiated with Government on a proposal to allow the Accountant General to use a certified copy of the invoice. To date there has been no agreement, but it will be imperative that the LRA and the Government work together to put workable measures in place during 2005/06.

Customs and Excise

The introduction of VAT led to a tightening of the relationship between the VAT and the Customs and Excise Divisions, with Customs employees collecting import VAT as well as Customs and Excise Duties.

In 2003/04, the aggregate collection of the border posts was M170,4 million, representing an annual growth rate of more than 200%. In 2004/05 these gains have been consolidated and extended, with an annual increase in the aggregate collections of 35%.

The growth at the commercial border posts has surpassed the 35%. This is illustrated in **Table 6**. Last year, I noted the proposal to extend the VAT refund procedures to all border posts. This was introduced, and now importers can pay VAT with a tax invoice no matter where they enter the country. The collection efforts were intensified during busy months by deploying some officers based at Head office to the border posts to reinforce the border control complement. This facilitated inspection of imported cargo at clients' premises on a risk management basis and thus enabled an improved flow of both vehicular

and pedestrian traffic through the border control area. The LRA's cooperation with the South African Revenue Service contributed to the major increase in import VAT collections.

The Performance Management Development System (PMDS), with performance indicators set for individual staff members at border posts, played a pivotal role in the increase of collections for 2004/05. The Authority adopted a Zero tolerance approach against corruption, as a result of which all reported cases of corruption and fraud were investigated and action was taken against perpetrators.

DEVELOPMENTS IN THE SOUTHERN AFRICAN CUSTOMS UNION (SACU)

On 15 July 2004, a new SACU Agreement came into effect. This has significant consequences for Lesotho,

Table 6: Comparison of Border Collection in 2004/05 with 2003/04 (in millions of Maloti)

	2003/04	2004/05	Variance	% Increase
Caledon Spoort	12,25	21,32	9,07	74%
Maputsoe Bridge	36,81	50,15	13,34	36%
Maseru Bridge	83,3	130,95	47,65	57%
Van Rooyen's Gate	11,56	15,69	4,13	36%
Qacha's Nek Gate	3,75	5,11	1,36	36%
Total	147,67	223,23	75,56	51%

which currently receives approximately 50% of its tax revenues from the common revenue pool. The new agreement was signed to promote regional and economic integration, which implies trade liberalisation. However, it will also allow considerably more transparency and accountability, with decisions being made by all member states and coordinated by the newly instituted SACU Secretariat.

The agreement entails a new revenue-sharing formula, which consists of three components: Customs, Excise, and Development. Lesotho currently receives the bulk of its share from the Customs component, but, as a result of trade liberalisation, the Customs Pool will gradually be eroded, thereby reducing Lesotho's share. As a consequence of the new formula, the only action that the LRA can take to increase the size of its payment from the SACU revenue pool is to improve the accuracy of its intra-SACU trade data. To achieve this, the LRA is planning to computerise its border procedures using a programme referred to as ASYCUDA.[2]

Although the Excise component yields very little, the Development component, which is constituted to compensate the less developed countries, has the potential to become increasingly important to Lesotho in the years to come.

The new revenue sharing formula is being implemented from 2005/06, but for 2004/05 the revenue was determined by the old formula. **Figure 4** shows the increase between 2003/04 and 2004/05. The increase of M590,8 million was due to increased imports linked to the textile industry and the payment of an adjustment from the revenue pool in respect of updated data.

REVENUE FOREGONE

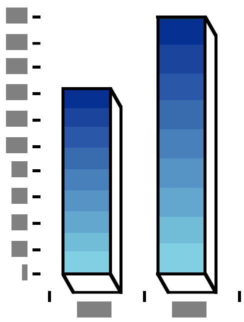
As outlined in Section 25 of the LRA Act, the Annual Report must report the revenue foregone because of exemptions, mitigations or deferrals that are granted by the Minister and published in the Gazette. In 2004/05, no such notices were published.

It is, however, interesting to note that the Government of Lesotho's pro-poor policy of zero-rating certain basic foodstuffs and agricultural inputs has cost in terms of tax revenues foregone M132,74 million. In addition the policy of levying a 5% VAT rather than the standard 14% rate on electricity and telecommunications has 'cost' the Government M29,02 million in foregone tax revenues.

TAX COMPLIANCE MANAGEMENT INITIATIVES

In order to improve compliance with the tax laws, many initiatives were pursued during 2004/05. These initiatives were a realisation of the LRA Corporate Plan

Figure 4: Customs Revenue



[2] *ASYCYDA - Automated System for Customs Data*

that was approved and adopted by the Board in 2003/04. The following activities are worth noting:

(i) Tax Amnesty

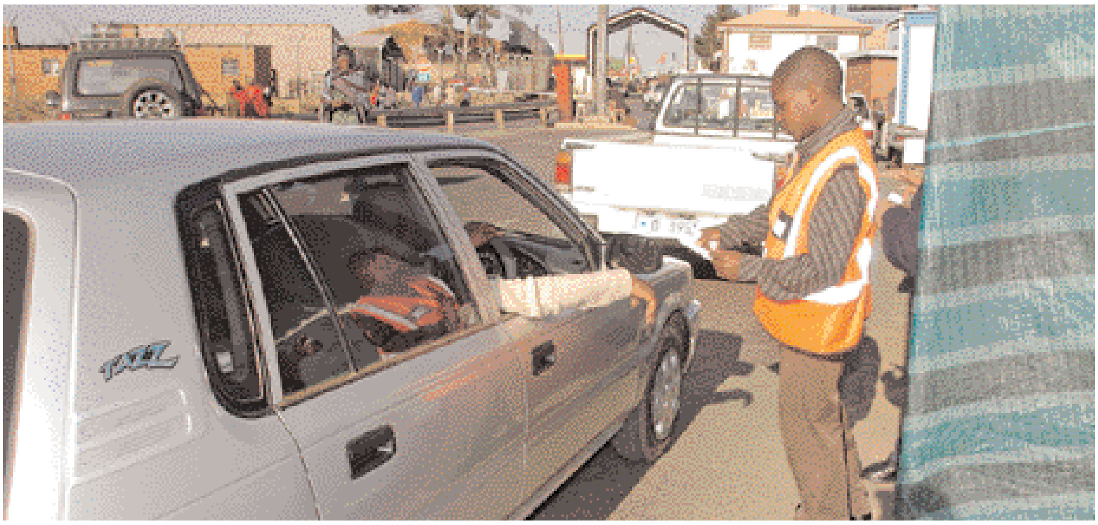
The inception of the semi-autonomous LRA reflects Government's intention to have a clean break with the past and its culture of non-compliance. In the same spirit, the tax amnesty was implemented to offer tax payers a chance to begin a clean slate.

The Amnesty was run for four months from 1 November 2004 to 28 February 2005 under the Tax Amnesty Act No 9 of 2004. The Act provided for two categories of tax amnesty, namely total forgiveness of past taxes, including all related penalties, prior to 31 March 1999, and partial forgiveness, forgiving all related penalties but not the principal tax liability, from 1 April 1999 to 31 March 2003. Both categories of tax amnesty had to be applied for by qualifying persons and, with respect to the latter type, successful applicants could enter into a time-to-pay schedule of not longer than two years, other than in exceptional cases which would be shown

to the Commissioner General.

The administration of the amnesty, through a three person Tax Amnesty Unit, was under my direct oversight.

After a slow start, the response of the taxpaying public to the amnesty was successful. There were 850 applications submitted, but, because the majority of



applicants were involved in more than one business, the amnesty covered more than 2 500 enterprises. The successful applicants have 24 months to payoff their outstanding liabilities, which amount to M4,8 million. The majority of the applications were in respect of Income Tax debts. In addition to the payments of debt, it is estimated that the tax amnesty will widen the tax net by more than 5%.

(ii) The Revenue Appeals Tribunal

The establishment of the Revenue Appeals Tribunal was also motivated by the creation of the Lesotho Revenue Authority, which amalgamated the administration of the revenue laws previously administered under separate departments of Government within the Ministry of Finance and Development Planning. Before the LRA, there was provision for tax tribunals under each revenue law, though unfortunately these were never implemented. The consolidation of the revenue laws under one tax administration required a single specialised tribunal which would be responsible for dealing with all tax cases arising from the revenue laws administered by the LRA.

The implementation of a law creating the Tribunal is considered critical in ensuring that justice is made accessible to all sections of the people - not just to the few who can afford lawyers - in the administration and enforcement of tax laws. The law guarantees accessibility through the simplicity of the Tribunal's procedures and the inexpensiveness of its processes.

The Revenue Appeals Tribunal has been established under the Revenue Appeals Tribunal Act No 2 of 2005, and appointment process is now at an advanced stage. It is hoped the Tribunal will be operational from 1 July, 2005.

The Tribunal will be headed by a Judge of the High Court of Lesotho, with the other members being from a variety of backgrounds to guarantee the aggrieved a sense of justice. There will be lawyers, accountants and businessmen in the pool of ten members of the Tribunal. The number has deliberately been made large to allow the flexibility required by the *ad hoc* sittings of the Tribunal.

(iii) Localisation of Vehicle Registration – Operation Mokorotlo

The VAT Act requires declaration of the vehicles at the port of entry and payment of import VAT. The Road

Traffic Act requires proof of payment of import VAT and further stipulates the time frame within which all imported vehicles should be registered in the country.

Given the low compliance with both these laws, and the implied tax revenue, the Authority in conjunction with the Road Traffic Department and the Lesotho Mounted Police Service (LMPS) launched *"Operation Mokorotlo"*. The operation was launched by the heads of the four organisations in February 2005. The launch was followed by a publicity campaign and roadblocks at which all non-compliant drivers/owners were given 21 days to convert.

As at the end of the financial year, 1,561 vehicles that originally bore foreign registration numbers had converted to local registration. As a result, M4 932 045 million of VAT was collected. The operation is intended to be continuous, with follow ups made on those who do not re-register their vehicle in 21 days, and the introduction of simplified border procedures for importing cars – for example, it is now possible to use a South African Tax Invoice as payment of import VAT on all cars.

Two other implications of the drive for local registration are the diversion of car loan applications from the South African banks to the local banks and the requirement that these cars are insured locally. By having these effects, the operation should increase bank and insurance profits and so have an indirect effect on tax revenues.

(iv) Taxpayer Education

The Authority undertook a series of tax clinics and other taxpayer education initiatives. The basis for this strategy was our conviction that taxpayers needed guidance and support towards the fulfilment of their tax obligations. A lot of the non-compliance within the taxpaying community results from a lack of understanding of the tax laws and related procedures. As such, tax education designed for clarifying the tax acts and related procedural regulations was aimed at business associations, small and medium enterprises and individual taxpayers, through both the Advice Centre and field staff.

In addition to these activities, the Authority launched a weekly radio programme, called *"Mokhafisi"*, over Radio Lesotho. This was for both information dissemination to the general population about tax matters and, more significantly, as a means through which taxpayers provide us with feedback on our performance. During the year, the radio programme played a pivotal role in supporting all projects that the Authority implemented.

The Advice Centre played an integral role in our taxpayer education efforts. The centre, opened at the LRA Headquarters in 2003/04, epitomises our commitment to providing a good service to all taxpayers. Following its success, plans were advanced to open centres at Leribe and Mohale's Hoek.

In addition to answering questions and assisting in registering taxpayers, the Centre dealt with many applications for tax clearances. This vindicates our decision to computerise and centralise the processing and issuing of tax clearances.

The LRA also partnered effectively with the print and broadcast media to relay important messages to the public. The support we enjoyed from the media, by factual and timely reports, is much appreciated.

(v) One-to-one meetings with taxpayers

As one of the ways of improving communication with our taxpayers, we started, in March, a long-term relationship building exercise. Through this initiative, the Commissioners and I, backed by Assistant Commissioners, met one-to-one with a number of companies to discuss and agree on measures that can be adopted by both the LRA and the taxpayers to enhance compliance with minimal enforcement. The Chief Executives and Directors of Finance of large corporate bodies met with me and the Commissioners, whilst the Assistant Commissioners met small and medium taxpaying businesses. Following up on these contracts has ensured mutual trust and promoted an environment of voluntary and accurate tax compliance by these taxpayers.

The plan is to develop close relationships with as many taxpayers as possible, exploring options for bringing about voluntary compliance and transforming the LRA-taxpayer relationship from a sometimes aggrieved one to a much more cooperative one.

The basis for this approach is an understanding that, with proper guidance and support, most people will comply with their tax obligations. The aggressive tax enforcement measures can then be directed at the minority who have decided to be non-compliant. This not only improves compliance but also does so at minimum cost, as less taxpayers' money is used in collecting more tax.

(vi) Strengthening our Audit and Assessment Capacity

As with any revenue collection agency, the LRA has to strengthen its audit and assessment capacity in order to enhance its tax enforcement and collection. This is made even more important by the fact that under the former tax regimes there was no culture of voluntary compliance. It will take time and careful strategies to develop a compliant culture. Therefore, we continued in 2004/05 to provide more training for our auditors in all three revenue divisions. In this regard, the financial support provided by DFID for VAT and Income Tax audits and the SADC secretariat for Customs audit training was invaluable.

In addition to these courses, the LRA continues to receive considerable assistance from SARS. Throughout the year, we have been working towards signing a Memorandum of Cooperation between LRA and the SARS Academy, and while the negotiations have been taking place, SARS has been assisting with VAT Law training and sharing its experiences on tax administration and in the area of human resource management. This relationship will enhance the long term institutional stability of the LRA.

Following SARS, we plan to move towards joint and risk based audits by gradually merging our Income Tax,

VAT and Customs audits teams and focusing on those taxpayers who fall into high risk categories. This approach should be more effective and efficient.

We also plan to assign collection targets to audit teams, to ensure an improved yield on effort and resources and to streamline audit processes to eradicate excessive discretionary powers of field staff, which tend to lead to baseless assessments and corruption.

(vii) Improvement of Import and Export Procedures

In view of the critical role that Customs plays in facilitating both imports and exports, particularly for the domestic textile manufacturing sector, the division met with the clearing agents and the textile manufacturers, to develop, agree upon and sign a Service Level Agreement. The LRA has kept to its side of the Agreement, processing and completing at least seven bills of entry for every clearing agent on the day they are submitted, thereby removing restrictions on the supply chain management of the local textile manufacturing sector.

(viii) Special VAT Refund System for Exporters

According to the VAT Act, all exports are zero-rated. As a result, all VAT paid locally by exporters when buying

inputs gets refunded. To solve the subsequent cash flow problems that result from the delay in refunds, the LRA pledged to pay approved exporters up front refunds based on a three-month moving average of refunds recently paid to them. In this way, the exporter gets refunded all his input VAT instantly and is audited later. There are criteria for qualification for the scheme and, to manage risk, defaulters are instantly disqualified. Since its introduction in October 2004, the scheme has seen nine exporters qualifying and benefiting from it.

(ix) Cooperation with other Law Enforcement Agencies

To improve Tax Law enforcement, the Authority adopted a strategy of forging effective operational links with such agencies as the Lesotho Mounted Police Service (LMPS) and the Directorate of Corruption and Economic Offences (DCEO). Through these partnerships, a number of tax evasion cases were successfully investigated.

IMPROVING LRA'S ADMINISTRATIVE CAPACITY

The Authority still faces many challenges in consolidating the good work done to establish it. The main challenge remains that of building sustainable administrative capacity. With this in mind, a number of administrative initiatives were pursued in the period under review. The following are notable:

(i) The Customer Satisfaction Survey

Having completed two full years of operation in which a number of changes to tax administration were implemented, the Board considered it necessary to undertake a survey of the opinions of the LRA that were held by the taxpaying public. The objective of the survey was to ensure that the services offered by the LRA are in line with the needs of the taxpayers. The survey also very crucially included the views and suggestions of staff.

The survey found that the taxpaying public perceived the authority as needing to improve the way it deals with its clients. Customer care was considered by the majority of taxpayers as an area of weakness. In response to this, we have prioritised customer care as the single most important issue we shall pursue in the new year. Additionally, management shall devise means of creating incentives for good behaviour and bring in punishments for bad behaviour. Standards set in training will be used as a benchmark.

A separate concern, which links to worries uncovered by the survey, is the pace of change in which that the LRA has engaged. I am aware that in certain areas policies introduced by the LRA have left both the staff and taxpayers behind. In order to correct for past errors and prevent similar problems in the future, there will be continued focus on taxpayer education and staff training.

(ii) Assigning Taxpayer Identification Numbers to all tax files

In preparation for computerisation of Income Tax and Customs planned for 2005/06, all taxpayer files were assigned a unique Taxpayer Identification Number (TIN). This enhances management of taxpayer files and gives the taxpayers more control over their tax issues. In addition, the TIN will allow the Customs, Income Tax, and VAT systems to be linked and run together. This will allow the LRA officers immediate access to all taxpayer transactions and provide mechanisms for cross checking information to ensure that all of the data that taxpayers submit to the LRA is consistent.

(iii) Performance Management and Development System (PMDS)

The adoption of a staff PMDS, as a performance appraisal instrument, was one of the main actions taken during the year to strengthen our administrative capacity.

Partnered with skills analysis undertaken by the Human Resource Division and subsequent training, the system was, for the first time, used as a basis for staff performance reviews. It is the Management and the Board's intention to instill a culture of performance throughout the Authority by using this system as a basis for staff development, promotions and pay.

(iv) Simplification of our Revenue Laws

Tax law simplification is one of our strategies to bring about efficiency and effectiveness in the carrying out of our mandate. With the exception of the VAT Act, which was enacted in July 2003, our tax laws and associated procedures are in need of urgent review to bring them in line with the new unified tax administration regime.

During the course of the year, a lot of work was put into the compilation of all provisions in our laws that are in need of review. To that effect, a tax amendment bill was prepared for submission to Parliament in early 2005/06. In compiling this bill, an attempt was made to update the laws and, equally important, to standardise the procedural requirements across the three laws. For instance, procedures for appealing against a tax assessment have to be similar in both the Income Tax and VAT Acts.

It is our intention to seek parliamentary approval of this law as early as possible in 2005/2006.

(v) Introduction of a computerised Financial and Human Resource Management Information System (F&HRMIS)

With the support of DFID, the authority finalised, towards the end of the review period, the installation of a computerised Finance and Human Resource Management Information System. The Oracle based system cost a total of M7,7 million, of which DFID paid M3,7 million for the consultancy and the LRA paid M4 million for hardware, licenses, support and maintenance. The project has been a great example of cooperating and cost sharing between donors and Government.

Once launched in the early part of 2005/06, the system will augment the Authority's ability to manage efficiently and effectively and to account for all tax revenue. The system has been partnered with a cashiering module which enhances financial management and security of tax collections by enabling detailed on-demand financial reports and security-coded receipts. The Human Resource module of the system gives the Authority ample capacity for managing its most important resource, the staff.

(vi) Staffing Developments

Staffing for the Authority is based on the Board approved establishment complement of 522. Because the Authority currently has some unfilled posts, the allocation of employees at the 31 March 2005 is shown in **Table 7.**

Table 7: Breakdown of Staffing

Division	Number
Customs	206
Income Tax	117
VAT	83
Support	99
TOTAL	**505**

Regarding turnover in 2004/05, 28 staff joined the Authority, nine resigned, four died and 15 were promoted. The rate of resignations indicates a staff turnover of 1,8% which shows good staff retention.

THE WAY FORWARD

Our Corporate Plan for the three year period 2003/04 to 2005/06 is approaching its end. The plan focused on the activities necessary to consolidate the former revenue departments under the new tax administration regime. These were increasing revenue collection, improving service delivery and improving the administrative capacity to ensure the long-term sustainability of the Authority.

While one year remains in this Plan, it is fair to say that the LRA has already achieved a lot of what appears in the Plan. One of our main activities in 2005/06 will be to plan for the three-year period spanning 2006/07 to 2008/09. Our main focus will be on consolidating the good work done since the Authority was established and building on it to ensure long term sustainability.

2005/06 will see us focusing on meeting our revenue collection targets by pursuing many initiatives. Given the macroeconomic challenges posed by the low economic growth and exchange rate appreciation, meeting our targets consistently will call for extra effort. We plan to take a critical look at our audit procedures and processes to enhance audit yield and, crucially, to build up our relationship with taxpayers to bring about voluntary compliance.

REVENUE COLLECTION

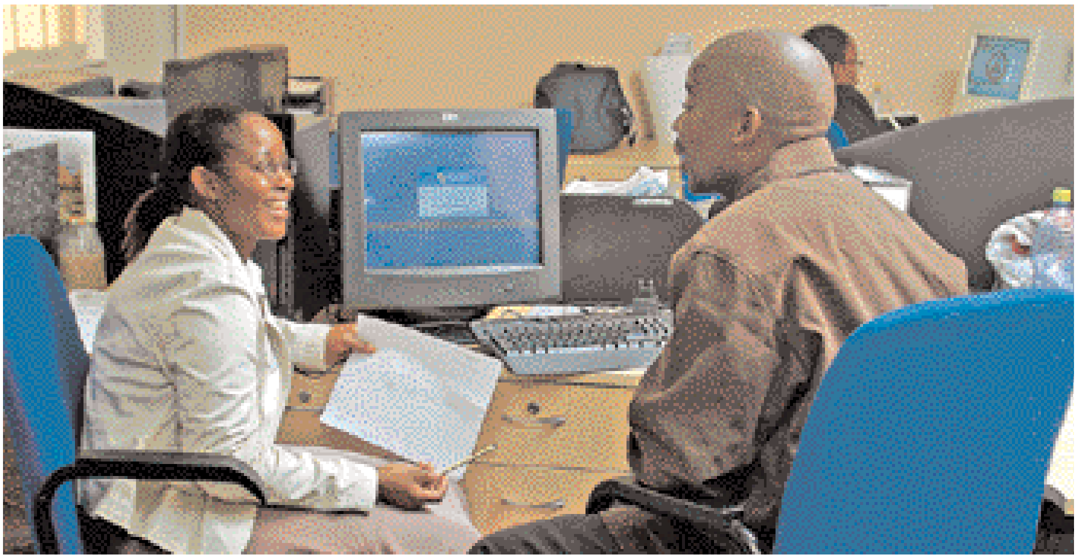
Being our main corporate mandate, the collection of revenue beyond the set and agreed targets will be our single most important objective. Indeed, all other activities we plan to pursue will be aimed at bringing about more tax revenue through voluntary compliance by taxpayers. As such, the drive to ensure that all tax revenue legally due is collected, banked and fully accounted for will continue as will the development and implementation of strategies for expanding the tax net. A decisive fight against corruption will also be a corner stone of our revenue collection efforts.

OUR STAFF

In my last report, I mentioned that when initially recruiting staff for the Authority, a deliberate decision was taken by the Board to engage external consultants to ensure that we objectively and professionally appointed staff with requisite skills and the highest level of integrity. Judging by the young and vibrant team that has seen the Authority achieve a great deal in the last two years, the decision was correct. However, the challenge now facing Management and the Board is to continue building a highly professional, well-motivated, productive and trustworthy staff team.

Through coordinated training programmes, collaboration with SARS and other partner tax agencies involved in skills transfer, capacity building, and continuous performance management, we shall go a long way towards addressing the deficiencies in technical competency. Sustaining and improving current levels of motivation and trustworthiness will pose an equal challenge.

We plan to collaborate with staff to devise and implement anti-corruption measures in the coming year. Our fight against corruption will be aimed at both corrupt staff and taxpayers through pre-emptive strategies to be developed and implemented in concert with other law enforcement agencies. The



motivation of staff will be addressed mainly through the continuation of our performance appraisal system which is based on rewarding good, and acting on poor, performance. We also plan to enhance internal communication to bridge the gap between staff and management.

FINANCIAL MANAGEMENT

Our commitment to ensuring that the LRA is a financially sustainable institution known for adherence to good financial management principles continues. We shall be paying particular attention to ensuring that we not only collect tax revenue for the Government but also fully account for it. For enhanced corporate governance, we shall continue to ensure that the Authority lives within its means by rationalising our expenditure.

A FINAL NOTE

I would like to finish by summarising the performance of the LRA. At an aggregate level, the revenue collections for 2004/05 missed their target by M18,65 million (1,2%). This small under performance is attributed to the slow down in Lesotho economy, which has followed the continuing strengthening of the Rand. Although collections missed the target, which was based on optimistic economic growth assumptions, they are in line with prevailing economic conditions. In terms of remittances to the Government of Lesotho, the annual collection in 2004/05 increased by 16% from M1345,21 million to M1561,80 million, while as a percentage of GDP, the collection of VAT and Income Tax has increased from 16% in 2003/04 to 17% in 2004/05. In my opinion, collections represent a strong performance, which the Authority can be proud of. However, it is important to acknowledge that these collections and the implementation of the administrative changes outlined in the report could not have been achieved without the effort of all LRA staff and the support and guidance of the Minister of Finance and Development Planning and his staff, the LRA Board, Donors and the South African Revenue Services.

Kevin M Donovan
Commissioner General

FINANCIAL STATEMENTS
for the year ended 31 March 2005

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.

Kevin M Donovan

STATEMENT OF RESPONSIBILITY OF THE GOVERNING BOARD FOR 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 2005

Kevin M Donovan
Commissioner General
17 June 2005

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 31 March 2005, 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 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.

In our opinion, the financial statements set out on pages 31 to 40 reflect a true and fair view of the state of the Authority's affairs at 31 March 2005 and of its excess expenditure over income and cash flow for the period then ended and subsequently 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 2005

INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2005

	Notes	March 2005 M	19 month-period to March 2004 M
INCOME			
Government funding		71 850 000	52 200 000
DFID grant received	13	11 527 261	15 158 158
Interest received		1 656 611	2 739 055
Storage income		411 925	1 879 213
Commission received		44 229	20 200
Other Income		41 128	–
Total income		**85 531 154**	**71 996 626**
EXPENDITURE			
Costs of collection:			
Staff related expenses		42 909 339	38 212 968
Inspection and enforcement expenses		1 887 712	1 503 434
Total costs of collection		44 797 051	39 716 402
Administration expenses:			
Staff related		12 345 366	9 801 145
Administration		18 977 209	16 269 945
Vehicle running		288 815	246 111
Computer related		–	864 353
Total administration expenses		31 611 390	27 181 554
DFID grant expenditure	13	11 527 261	15 158 158
Total expenditure		**87 935 701**	**82 056 114**
Excess expenditure over income	3	**(2 404 547)**	**(10 059 488)**

BALANCE SHEET
as at 31 March 2005

	Notes	March 2005 M	19 month-period to March 2004 M
ASSETS			
Non-current assets			
Property, plant and equipment	5	47 305 017	10 920 644
Current assets			
Accounts receivable	6	346 826	175 185
Bank and cash	7	25 868 060	23 184 422
Collection Accounts	8	49 911 099	64 176 557
		76 125 985	87 536 164
TOTAL ASSETS		**123 431 002**	**98 456 809**
CAPITAL AND LIABILITIES			
Capital and Reserves			
GoL Capital fund	9	73 312 033	32 663 254
Accumulated excess expenditure over income		(14 305 275)	(10 059 488)
		59 006 758	22 603 766
Non-current liabilities			
Provisions	10	7 357 874	3 849 841
Current liabilities			
Collection accounts	8	49 911 099	64 176 557
Accounts payable and accruals	11	2 064 606	2 735 980
Other payables	12	5 090 665	5 090 665
		57 066 370	72 003 202
TOTAL CAPITAL AND LIABILITIES		**123 431 002**	**98 456 809**

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

for the year ended 31 March 2005

	Notes	GOL Funding M	Accumulated excess expenditure over income M	Total M
Balance at date of inception		–	–	–
Excess expenditure over income for the 19 month period ended 31 March 2005		–	(10 059 488)	(10 059 488)
GoL Capital fund		32 663 254	–	32 663 254
Balance at 01 April 2004		**32 663 254**	**(10 059 488)**	**22 603 766**
		–	–	–
Excess expenditure over income for the year ended 31 March 2005		40 648 779	(2 404 547)	38 244 232
Prior year adjustment	5	–	(1 841 240)	(1 841 240)
Balance at 31 March 2005		**73 312 033**	**(14 305 275)**	**59 006 758**

CASH FLOW STATEMENT

for the year ended 31 March 2005

	Notes	March 2005 M	19 month-period to March 2004 M
CASH FLOW FROM OPERATING ACTIVITIES			
Excess expenditure over income		(2 404 547)	(10 059 488)
Adjustment for:			
Depreciation		8 430 084	2 911 147
Prior year adjustment		(1 841 318)	–
Changes in working capital:			
Increase in accounts receivable		(171 641)	(175 185)
Decrease in accounts payables, accruals, collection accounts and interest accrued		(11 681 341)	76 105 664
Net cash outflow from operating activities		**(7 668 763)**	**68 782 138**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(44 814 457)	(13 831 792)
Net cash outflow from investing activities		**(44 814 457)**	**(13 831 792)**
CASH FLOW FROM FINANCING ACTIVITIES			
GOL Capital fund		40 648 779	32 663 254
Net cash inflow from financing		**40 648 779**	**32 663 254**
DECREASE IN CASH AND CASH EQUIVALENTS		**(11 834 441)**	**87 613 600**
CASH AND CASH EQUIVALENTS AT 01 April 2004		**87 613 600**	**–**
CASH AND CASH EQUIVALENTS AT 31 March 2005		**75 779 159**	**87 613 600**

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 13.

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

	March 2005 M	19 month-period to March 2004 M
Excess expenditure over income is stated after charging:		
Board fees and expenses	728 598	792 344
Provision for Auditor's remuneration	252 700	252 621
	981 298	**1 044 965**

4. PRIOR YEAR ADJUSTMENT

This represents once off payment of software costs capitalised in 2004, written off in current year.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost M	Accumulated depreciation M	2005 Carrying amount M	2004 Carrying amount M
Owned assets				
Movable property	40 873 494	7 320 989	33 552 505	–
Land	29 128	–	29 128	29 128
Motor vehicles	5 792 075	2 251 051	3 541 024	2 718 397
Furniture and fittings	4 644 417	685 835	3 958 582	1 584 924
Office equipment	2 420 183	599 853	1 820 331	568 470
Computer equipment	4 886 950	483 503	4 403 447	6 019 725
	58 646 248	**11 341 232**	**47 305 017**	**10 920 644**

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

FOR THE YEAR ENDED 31 MARCH 2005	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
	10 920 644	**44 814 457**	**8 430 084**	**47 305 017**

6. ACCOUNTS RECEIVABLE

	March 2005 M	19 month-period to March 2004 M
Deposit	43 344	19 598
Prepayments	238 190	94 790
Accrued interest	62 869	60 797
Accounts receivable	2 422	–
	346 826	**175 185**

7. BANK AND CASH

Bank balances	14 335 538	12 423 974
88 day deposit account	11 511 925	10 737 427
Cash on hand	20 598	23 021
	25 868 060	**23 184 422**

8. COLLECTION ACCOUNTS

VAT call account	18 323 758	16 390 687
VAT current account	(29 237 569)	(11 825 332)
Income Tax bank call account	47 229 865	124 294
Income Tax bank current account	(49 219 303)	1 504 565
Income Tax bank current account	(56 517)	–
	(12 959 766)	**6 194 214**
SACU Accounts		
Current account	3 921 418	29 893 937
Customs and Excise bank accounts	58 949 447	28 088 406
	49 911 099	**64 176 557**

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

9. **GOVERNMENT FUNDING**

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance and Development Planning) and the Lesotho Revenue Authority provided for the transfer of all assets (non-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.

10. PROVISIONS

	March 2005 M	19 month-period to March 2004 M
Gratuity	4 256 651	2 157 393
Severance pay	2 610 872	1 238 489
Leave pay	480 710	453 959
PAYE	9 641	–
	7 357 874	**3 849 841**

11. ACCOUNTS PAYABLE AND ACCRUALS

Creditors and accruals	2 064 606	2 463 345
Provisional duty	–	272 635
	2 064 606	**2 735 980**

12. OTHER PAYABLES

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

13. 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
			26 685 419

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