



## C O N T E N T S



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## C O R P O R A T E   P R O F I L E



*LRA Officer accepting a tax return from a client at Mofales' Hoek Advice Centre*

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.



## VISION, MISSION AND OBJECTIVES

### 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 organisation

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

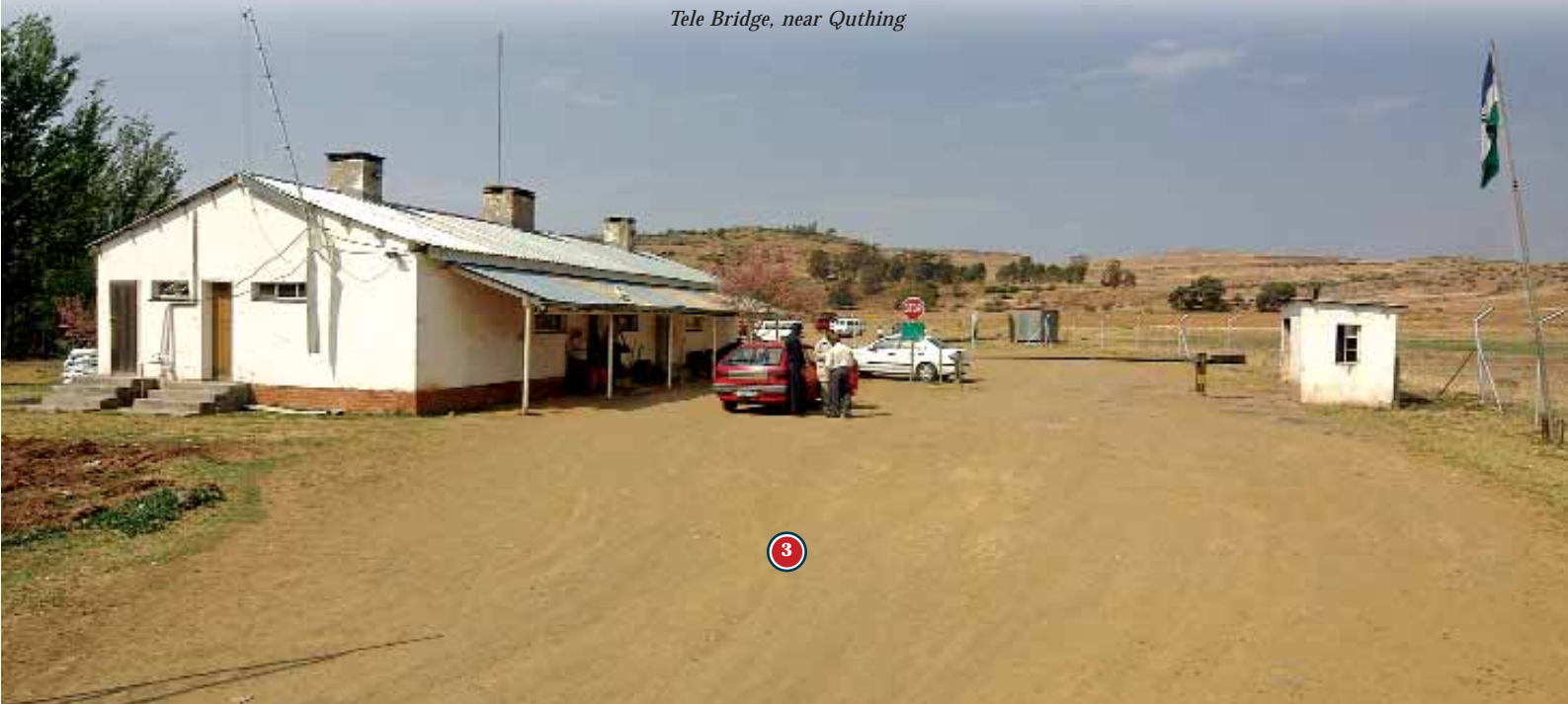
#### Corporate image

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

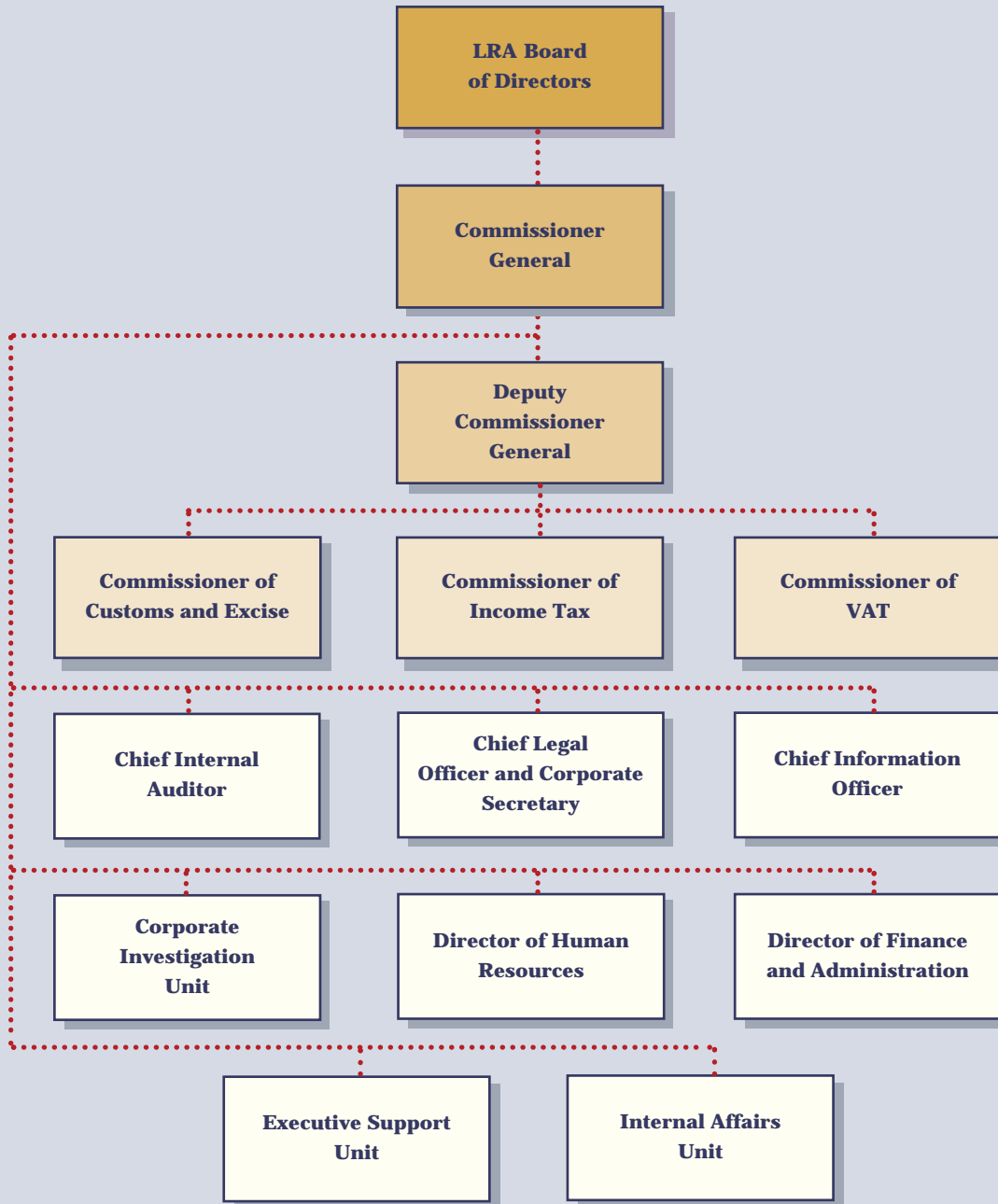
To demonstrate leadership in the fight against corruption.

*Tele Bridge, near Quthing*





## L R A O R G A N I S A T I O N A L S T R U C T U R E





## BOARD OF DIRECTORS



**Mrs 'Matlotliso Ntoane**  
LRA Board Chairperson



**Mr Sam Mphaka**  
Lesotho Institute of Accountants



**Mr Mohlomi Rantekoa**  
Ministry of Trade and Industry,  
Cooperatives & Marketing



**Adv Thabo Makeka**  
Association of Lesotho  
Employers & Business



**Mr Thabo Phohleli**  
Lesotho Chamber of Commerce  
and Industry



**Mr Tanka Tlelima**  
Central Bank of Lesotho



**Mr Tseko Bohloa**  
Nominated by the Minister of  
Finance and Development Planning



**Dr Charles Jenkins**  
Commissioner General



## 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



**Mrs Ntefeleng Tsiboho**  
Chief Internal  
Auditor





## CHAIRPERSON'S STATEMENT



I am pleased to report that the 2006/07 fiscal year was one of exceptionally good performance for the Lesotho Revenue Authority, with remittances to the Government exceeding agreed targets by more than M100 million.

It is critical, however, for an organisation of national importance like the LRA to ensure that such performance is not erratic, but stable and sustainable. For this reason, the year under review has seen the Authority lay the foundation for continued improvement in future.

In August, a major review of the Authority's structure was commenced, in order to ensure consistency and alignment between our organisation and our strategic objectives. The Board has now approved the recommendations of this exercise, and during the coming year many significant changes will take place which will lead to improvements in the services we render to our Taxpayers. These changes will place Lesotho among the most forward-looking revenue administrations on the continent.

I realise of course, that change on this scale inevitably leads to uncertainty and tension within any organisation, and I would like to commend the management and staff of the Authority for the constructive spirit in which they have approached and accepted this exercise.

On the international scene, I am pleased to say the LRA is becoming more prominent. Lesotho, through our Commissioner of Income Tax, Mr Nthako Sekome, now represents the Southern African region on the Management Committee of the Commonwealth Association of Tax Administrators. I would also like to recognise the conspicuously good work done by our Commissioner of Customs & Excise, Mr Thabo Letjama, in his role as Chairman of the SADC Sub-Committee on Customs Co-operation; and for strengthening Lesotho's ties with the World Customs Organisation.

It is also very positive that relations with our South African counterpart organisation, SARS, continue to grow from strength to strength. This is reflected in SARS' continued support in the area of capacity building; and also in our joint programme to implement the SARS computerised customs system, CCA1, at our five commercial border posts.

With all of these developments in hand, I feel confident that the LRA will continue to achieve the goals for which it was established. In this connection I would like to commend the Commissioner General, Dr Charles Jenkins, for the strategic direction and guidance he has provided, and for the help and encouragement he has given to the Management Team.

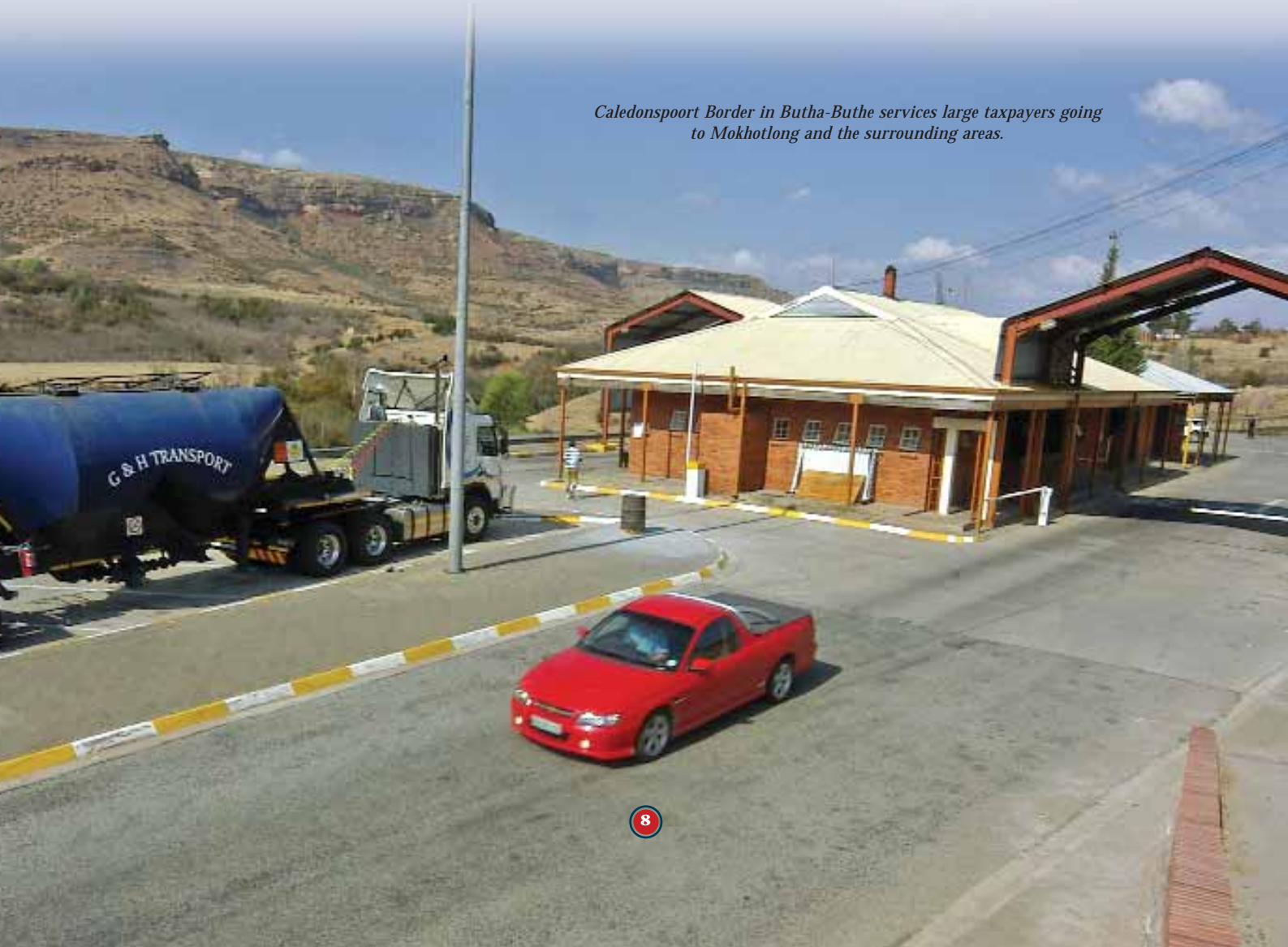
Of course, the LRA has continued to enjoy considerable support in its efforts to develop and move forward positively, and I would like to take this opportunity to thank the United Kingdom Department for International Development (DFID) for the assistance they provide.

In closing, I should also like to recognise the continued support and encouragement we receive from the Government of Lesotho, and in particular from the Ministry of Finance and Development Planning. Our plans are ambitious, but I believe they are focused on achieving the purposes for which the Authority was established, and supporting national development.

**'Matlotliso Ntoane**  
*Board Chairperson*



*A Customs officer serving a taxpayer at Caledonspoort Border, Butha-Buthe*



*Caledonspoort Border in Butha-Buthe services large taxpayers going to Mokhotlong and the surrounding areas.*





## COMMISSIONER GENERAL'S STATEMENT



### OVERVIEW OF REVENUE PERFORMANCE

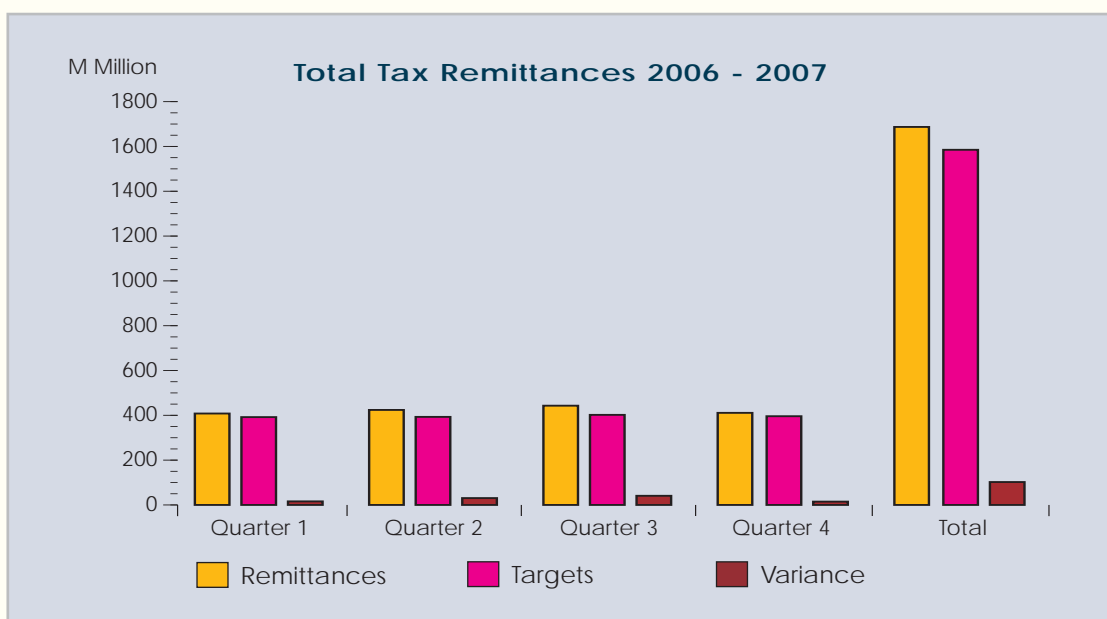
2006-07 was an exceptionally good year for tax remittances to the Government, with the combined Income Tax and VAT target of M1 585,47 million being exceeded by M102,20 million, or 6,45 %.

Income Tax, with total remittances of M973.1 million, exceeded its target of M892.8 million by M80.3 million, or 9%. While some of this excess was attributable to windfall payments, the overall result nevertheless reflects strong performance, and success in increasing compliance.

VAT performance was also robust, with total remittances of M714.58 million exceeding the target of M692.67 million by M21.91 million, or 3.2%. This very positive result is partly a reflection of increased compliance, and partly a reflection of the economic upturn that Lesotho is currently enjoying.

Figure 1 below shows total tax performance for 2006-07, broken down by quarter. The Authority exceeded its remittance targets in every quarter, with performance being particularly strong in the middle two quarters of the fiscal year.

**Figure 1**





## COMMISSIONER GENERAL'S STATEMENT

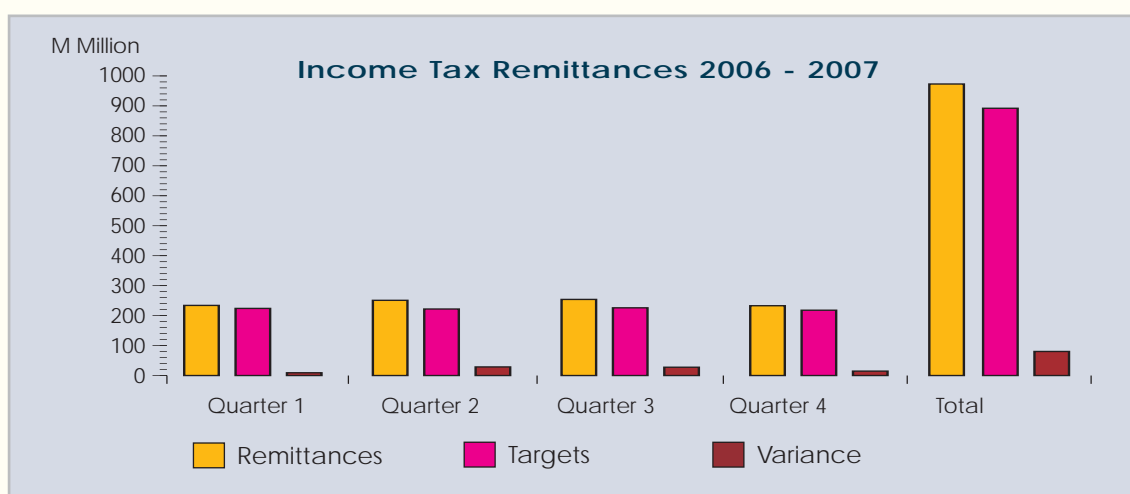
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### ANALYSIS OF TAX REVENUE

#### Income Tax

Income Tax performance for the year was exceptionally strong, and exceeded the target by M80.29 million (8.9%) (see Figure 2 below). This represented an increase of 5.2% over 2005/06, despite the annual target being set lower as a result of the reductions in company tax rates introduced in 2006/07. A thorough impact analysis is being undertaken to assess how much of this over-collection is attributable to the increased investment, income generation and employment brought about by the reduction in company tax rates (see Box 1); and how much is attributable to improved compliance.

**Figure 2**



Income Tax comprises five components, namely:

- Personal Income Tax;
- Company Tax;
- Withholding Tax;
- Fringe Benefits Tax; and
- Gaming Levy.

The largest components of Income Tax were Personal Income Tax (PIT), which accounted for 65% of total collections; followed by Company Tax, which accounted for 21%. For analytical purposes, the other components are clustered under 'other'. A more detailed breakdown of remittances by tax type is given in Table 1 below:

**Table 1: Income Tax Quarterly Performance**

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
<b>Personal Income Tax</b>	152.56	170.18	166.75	139.98	<b>629.48</b>
<b>Company Tax</b>	50.38	41.69	54.89	52.62	<b>199.59</b>
<b>Other Taxes</b>	31.04	39.72	32.79	40.46	<b>144.02</b>
<b>Total Income Tax</b>	<b>233.99</b>	<b>251.60</b>	<b>254.44</b>	<b>233.07</b>	<b>973.09</b>
<b>Target</b>	224.79	222.90	226.75	218.36	<b>892.80</b>
<b>Variance</b>	9.19	28.70	27.68	14.71	<b>80.29</b>
<b>% Variance</b>	3.93	11.41	10.88	6.31	<b>8.9</b>



## COMMISSIONER GENERAL'S STATEMENT

(continued)



*Taxpayer service in action at Maseru Advice Centre*

### **Box 1**

#### **Income Tax Policy Changes**

The Honourable Minister of Finance and Development Planning announced in his 2006/07 Budget Speech, that in order to address the issue of tax rate differentials between Lesotho and South Africa, and to improve Lesotho's competitiveness as an investment destination, the standard rate of Company Tax would be cut from 35% to 25%. In addition, specific incentives would be provided to the manufacturing and farming sectors, where the company tax rate would be cut from 15% to 10%. The ailing textile and clothing industry received further encouragement to export outside the SACU region through the reduction of the company tax rate to 0%.

It was estimated that income tax revenue would be reduced by approximately M55 million as a result of:

- (i) An estimated tax loss of M69 million from the reduction in company tax rates; and
- (ii) An increase of M14 million in tax paid by professionals & sole traders who would incorporate in response to the reduced company tax rates.

#### **Value Added Tax**

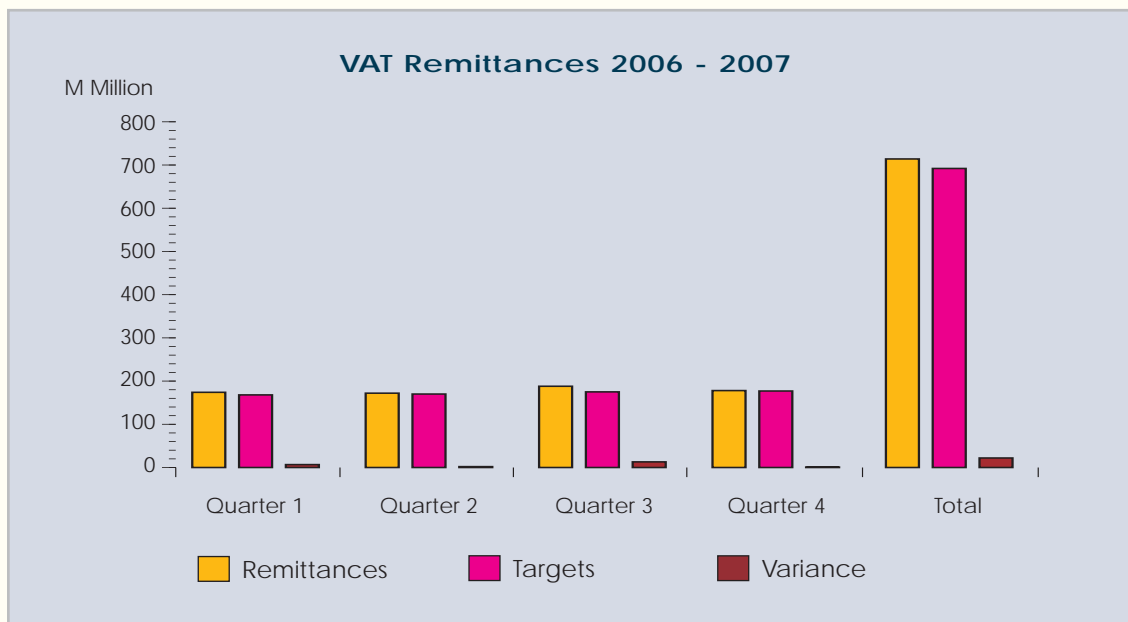
VAT performance for the year was robust, with total remittances of M714.58 million exceeding the target by M21.91 million, or 3.2% (see Figure 3 below). This also represented an increase of 9% over 2005/06.



## COMMISSIONER GENERAL'S STATEMENT

(continued)

**Figure 3**



VAT is highly responsive to changes in the economy, and this positive result confirms the economic recovery that was noted during the year.

VAT comprises two components, namely:

- Inland VAT; and
- Import VAT.

In the year under review, Inland VAT accounted for 62.5% of total VAT remittances, while Import VAT accounted for the balance of 37.5%. Table 2 below gives a detailed breakdown of VAT targets and remittances throughout the year.

**Table 2: VAT Quarterly Performance**

VAT	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Inland	107.99	105.27	115.58	117.53	<b>446.37</b>
Import	66.76	67.57	73.26	60.62	<b>268.21</b>
Remittances	<b>174.76</b>	<b>172.84</b>	<b>188.84</b>	<b>178.15</b>	<b>714.58</b>
Target	<b>168.06</b>	<b>170.93</b>	<b>175.79</b>	<b>177.98</b>	<b>692.67</b>
Variance	6.70	1.91	13.13	0.17	<b>21.91</b>
% Variance	3.83	1.10	6.96	0.10	<b>3.16</b>

Interestingly, the higher targets and remittance levels in the third and fourth quarters reflect the higher level of consumption during the festive season, and also confirm the immediacy with which VAT responds to changing levels of economic activity. (The effects of the festive season show up in the fourth quarter, as January's VAT filing reflects December's transactions).





*A nationwide service – LRA Customs Officer at Tele Bridge, Quthing*



*A Customs Officer capturing data for IVCF, which allows compliant businesses to import goods on credit to ease their cashflow*



## COMMISSIONER GENERAL'S STATEMENT

(continued)

### SACU Receipts

Receipts of Customs and Excise duties in the Southern African Customs Union (SACU) are pooled between the Member States, and shared in accordance with an agreed formula. The operational performance of the Customs & Excise (C&E) Division within the LRA does not therefore have a direct, short-term impact on the revenue derived from this source. The C&E Division does however, have a key responsibility to ensure that the terms of the SACU Agreement are complied with at all times, and in so doing maintain the confidence and trust on which the Agreement is based.

The SACU revenue sharing formula has three components, namely:

- Customs duties;
- Excise duties; and
- Development.

The revenue share in each of these categories is in turn based on a separate formula.

The breakdown of Lesotho's share from the SACU revenue pool in 2006/07 is shown in Table 3 below.

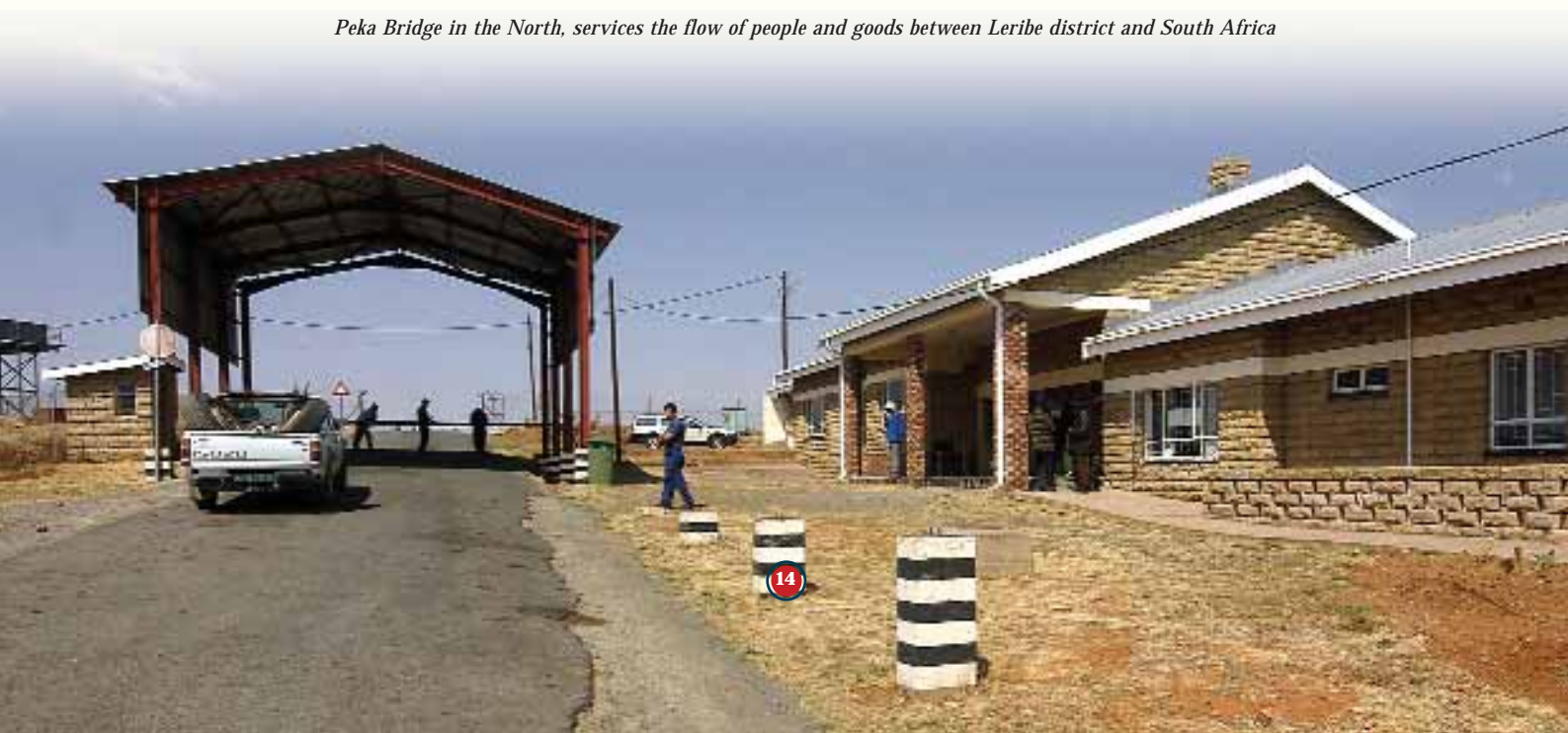
**Table 3 Lesotho's Share of the SACU Revenue Pool, 2006/07**

Component	Amount (M million)	Percent
Customs	2,189.53	78.7
Excise	78.14	2.8
Development	513.52	18.5
Total	2,781.19	100.0

In addition to the amounts shown in Table 3, Lesotho also received an allocation of M1 421.96 million in 2006/07, as an adjustment in respect of payments due from previous years. Total receipts from the SACU revenue pool for the year were therefore M4 203.15.

Table 3 shows that receipts from the SACU revenue pool which are based on Customs duties are very significant. In the year under review, such receipts accounted for more than the combined total for Income Tax and Value Added Tax. It is clearly a concern for the future that the quantum of such receipts is under threat from the global trend towards free trade, and the consequent reduction of border tariffs.

*Peka Bridge in the North, services the flow of people and goods between Leribe district and South Africa*







*Customs Officers attending to a taxpayer at Maputsoe Bridge*



*LRA Officer serving a client at the Trade and Investment Facilitation Centre, a One-Stop-Shop facility jointly administered by the LRA and the Ministry of trade and Industry, Cooperatives and Marketing*



## COMMISSIONER GENERAL'S STATEMENT

(continued)

### **Box 2: Revenue foregone**

In accordance with Section 25 of the LRA Act, the Authority is legally required to report any revenue foregone as a result of exemptions, mitigations or deferrals that are granted by the Minister of Finance and Development Planning, and published in the Gazette.

In the year under review, the Minister, in terms of the authority vested in him under section 107 (6) of the Income Tax Order, granted exemption from withholding tax on interest payments on two overseas loans, due to Gooway Enterprises Limited, a non resident company. These exemptions were in respect of loans made to Lesotho Precious Garments (Pty) Limited, and P&T Textiles (Pty) Limited. Legal Notice No. 32 of 2007 in respect of these exemptions was published in March 2007. The tax revenue foregone amounted to M6.3 million in respect of the loan to Precious Garments (Pty) Limited, and M1.3 million in respect of the loan to P&T Textiles (Pty) Limited. In total, revenue foregone due to exemptions granted is M7.6 million.

### **TAX ADMINISTRATION AND OPERATIONAL DEVELOPMENTS**

In June 2006 the LRA Board approved the Authority's second, three-year Strategic Plan, covering the period 2006-2009. This plan sets the framework for continued improvement in the LRA's operations, including a sustained movement towards enhancing the level of service rendered to our Taxpayers.

Six strategic objectives are set out, together with supporting strategic initiatives and performance indicators. These strategic objectives, which together form the basis for reporting progress, are:

- Meeting Revenue Collection Targets
- Creating a Fair and Effective Revenue Environment
- Enhancing Voluntary Compliance
- Developing a Strong and Sustainable Organisation
- Building a strong, value-driven Corporate Image
- Being at the forefront of the Fight against Corruption.

The following pages reflect the Authority's activities and achievements in each of these areas.

#### **Revenue Collection**

As reported above, the Authority was successful in 2006/07 in meeting and exceeding its revenue targets in all areas of tax collection. Notwithstanding this, it is intended that the LRA will in future become increasingly effective in delivering to the Government the revenue required to support Lesotho's continued development.

Among other things, this requires that the Authority is efficient in collecting and retrieving comprehensive, timely and accurate information on taxpayers. In pursuit of this, the LRA has proceeded with the implementation of an internationally developed computer system, VIPS+, that provides for the integrated processing of both VAT and Income Tax records and transactions.

The LRA has also built, and continues to build, strong collaborative networks and relationships with tax agents, and professional bodies and associations. In particular, the LRA works closely with the Lesotho Institute of Accountants (LIA) in developing and supporting professional standards and behaviour; and with the Lesotho Textile Manufacturers Association to provide guidance on how to comply with export and import requirements at the border posts.

#### **Fair and Effective Revenue Environment**

It is the LRA's responsibility to ensure that Lesotho's revenue laws are administered in a fair and even-handed manner. One of the main goals in creating a fair and equitable revenue environment is to ensure that revenue compliant businesses are not competitively disadvantaged by meeting their statutory revenue obligations.





## COMMISSIONER GENERAL'S STATEMENT

(continued)



*Vehicle clearance certificates are issued by LRA Advice Centres for registering imported vehicles and changing of ownership*

In order to provide for the future broadening of the tax net, it is necessary to understand where the main areas of revenue leakage occur. To this end, the development of a comprehensive compliance model was commenced. This model will assist in estimating the current size of the tax gap, and in profiling non-compliance. Even though this exercise is a work-in-progress, some of the initial findings and recommendations have already been used to design operational strategies that address the causes of non-compliance.

Existing systems were also improved in order to make the Authority more effective in identifying non-filers and defaulting taxpayers, and to take appropriate, remedial measures. The Taxpayer Identification Number (TIN) database was cleaned to identify non-filers and remove, where necessary, de-registered and defunct businesses. Using well-developed criteria, analysis is continuously undertaken to identify high risk entities, and ensure that focused and robust audits are conducted, without disadvantaging compliant taxpayers. Through this process, substantial amounts of tax have been recovered.

In respect of equity in international trade, in November 2006 the Authority commenced the computerisation of its Customs systems, in collaboration with the South African Revenue Service (SARS). This is a major project, which is essential to facilitate the flow of trade and people across Lesotho's borders. The first phase of this initiative, which is due to be completed during the course of 2007, will involve the computerisation of the State Warehouse in Maseru; and the intra-SACU trade at the five commercial border posts (Maseru Bridge, Maputsoe Bridge, Caledonspoor, Qacha's Nek and Van Rooyens Gate).

The implementation of this system will be a major step towards the establishment of a one-stop border arrangement with SARS, which is aimed at improving efficiencies at the border posts and enabling the effective sharing of information between the two revenue administrations.



## COMMISSIONER GENERAL'S STATEMENT

(continued)

### **Box 3: Progress on the Implementation of Common Customs Area (CCA) System**

The first phase of the project has been progressing well and the following activities have been carried out:

- The State Warehouse and CCA user requirement specifications have been approved and signed off, ensuring that the LRA's requirements are met;
- The overall network at the LRA headquarters and various stations has been designed;
- Data lines have been acquired, except for Van Rooyens and Caledonspoort border posts, where Telecom Lesotho does not yet have infrastructure. However, negotiations are on-going between the LRA and Lesotho Telecom about means of acquiring data lines for these two border posts;
- State Warehouse staff have been trained on the use of the system.

### **Operation Ntsoana-Tsatsi**

November 2006 saw the launch of Operation Ntsoana-Tsatsi, which was devised to ensure that import duties and taxes were recovered on vehicles illegally imported from outside the SACU region. One of the benefits of this exercise has been to ensure that in the commercial transport sector, importers of illegally imported vehicles have been penalised for seeking to gain unfair advantage over their revenue-compliant competitors. Importantly, this exercise also provides an excellent example of the co-operation that exists between the LRA, the Lesotho Mounted Police Service (LMPS), and Directorate of Corruption and Economic Offences (DCEO). To date, more than M500,000 has been recovered through this operation.

### **Voluntary Compliance**

One of the most critical strategic objectives of any revenue administration is to raise the level of voluntary compliance with revenue laws. In doing this, both collection costs and the burden of compliance on Taxpayers are reduced. In pursuit of this objective, the LRA has adopted the following broad initiatives:

- Removing obstacles to compliance by improving and simplifying its systems and procedures;
- Putting in place arrangements that reward compliant behaviour; and
- Providing Taxpayer information and education services.

*Maputsoe Bridge – at the border with Ficksburg, South Africa*





## COMMISSIONER GENERAL'S STATEMENT

(continued)



*LRA Advice Centres handle all queries and enquiries from taxpayers*

The main efforts made in each of these areas are described below.

### **Improving Systems and Procedures**

#### ***Establishment of Trade and Investment Facilitation Centre (TIFC)***

In an initiative to improve services to importers and exporters, particularly in the manufacturing sector, the LRA Customs Division and the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) established the TIFC in April 2006. The purpose of the TIFC is to provide a one-stop-shop facility, where businesses can access all the services they require under one roof. It is intended that ultimately the services of the TIFC will be extended to address the needs of investors as well as existing businesses. The TIFC is located in the MTICM offices in Maseru.

#### ***Clearance of Extra SACU Vehicles at Maseru Bridge***

The LRA Customs & Excise Division was aware that delays were being experienced by Taxpayers in clearing motor vehicles imported from outside the SACU region. Consequently, in September 2006, the clearance procedure was changed, and instead of such vehicles being required to go through the clearance process at the State Warehouse, all declaration and clearance formalities are now completed at Maseru Bridge border post. This has resulted in significantly reduced clearance times for Taxpayers.

### **Rewarding Compliant Behaviour**

In response to the needs of the business sector, the Customs & Excise Division has introduced an Accreditation Scheme. Under this scheme, consignments imported and exported by accredited clients are not necessarily subject to physical inspection.



## COMMISSIONER GENERAL'S STATEMENT

(continued)

Instead, audit based techniques are used retrospectively to ensure that the Taxpayer complies with revenue laws. A number of applications have been received for registration under this scheme, and it is expected that a range of business entities will benefit from it in the course of the upcoming year.

In order to alleviate cash flow problems for manufacturers, an Upfront VAT Refunds Payment Scheme was approved for all exporting firms. As a result, quarterly VAT refunds are now being paid to compliant exporters without the need for advance applications. This initiative is highly innovative, and at present is an arrangement unique to Lesotho within the SADC region.

### **Taxpayer Information and Education Services**

#### ***Tax Clinics***

Tax Clinics were carried in all regions across the country to reach the widest possible range of Taxpayers. The Clinics were conducted both to support existing arrangement such as Self Assessment Filing; and also to provide information and guidance on new initiatives such as the launch of the SADC Single Administrative Document (SAD) at the borders, and Operation Ntsoana-Tsatsi.

#### ***"Mokhafisi" Radio Programme***

The anchor of LRA's Taxpayer Education is the *Mokhafisi* radio programme. This programme is aired every Wednesday on Radio Lesotho for 45 minutes from 07:15 a.m. Now in its third year of broadcast, the programme has included all LRA Taxpayer Education initiatives, as well as providing general information about the Authority, and advertising other communication initiatives, such as Tax Clinics and exhibitions.

#### ***LRA Advice Centres***

The three LRA Advice Centres, in Maseru, Mohale's Hoek and Leribe, continue to provide quality and timely service and useful information to Taxpayers.

### **Building A Strong And Sustainable Organisation**

#### ***Review of the LRA Organisation Structure***

The LRA is constantly looking for ways in which it can improve its performance, as reflected in the indicators set out in its Strategic Plan. To this end, the Authority commenced a comprehensive organisational review in August 2006. The review process, which was conducted by a combination of LRA staff from all areas of the Authority, supported by international experts, resulted in the development of a new organisation structure, based on the Authority's stated strategies and priorities.

The new organisational structure, which will involve radical and far-reaching changes in the way the LRA interacts with Taxpayers, will be implemented during the 2007/08 fiscal year.

In order to support the new organisational structure, the LRA has also developed a new, and flatter, grading structure which rationalises spans of control and provides clearer reporting lines and career development paths for staff.

This major initiative to improve the overall performance of the Authority will be underpinned by an enhanced Performance Management System, which will link remuneration and promotion to the objectively measured performance of staff at all levels. This system was designed in the year under review, and implementation will commence in the upcoming fiscal year.





## COMMISSIONER GENERAL'S STATEMENT

(continued)



*LRA Officers and Clearing Agents regularly work together to verify declaration documents and bonded goods at the State Warehouse*

### ***Information and Communications Technology (ICT)***

During the year under review, the Authority developed a comprehensive, three-year ICT strategy.

The implementation of this strategy, which has already commenced, will upgrade the Authority's ICT platform, and transform the ICT Division's capacity to support the development of cutting edge business processes and systems, in pursuit of the LRA's overall strategic objectives.

Importantly, the new ICT strategy will also consolidate the LRA's position as one of Lesotho's leading users of technology, and in so doing support its position as an Employer of Choice.

### ***Risk-Based Audit and Control Procedures***

In 2006/07, the Internal Audit Division enhanced its approach to determining how its audit activities should be directed. This involved developing an audit programme based on the categorising and ranking the risks presented to the Authority by the systems and procedures being reviewed. This ensures that the resources of the Internal Audit Division are deployed in a rationally prioritised manner.

### ***Staff Issues***

Fourteen staff resigned from the Authority during the year, which represents less than 3% of total employment. In itself this is not a cause for concern, and would be regarded as healthy by international standards. However, five of these fourteen were employed in the IT Division, and this does represent an area of specific concern, which is being addressed through a review of the LRA's remuneration structure and levels.



## COMMISSIONER GENERAL'S STATEMENT

(continued)

### **Corporate Image**

During the year under review, the Authority undertook a number of initiatives to enhance its corporate image. A new Communication Strategy was approved by the Board in April, which has been implemented in stages during the year.

Some of the specific initiatives undertaken are described below.

#### ***New Vision and Mission Statements, and the Taxpayer Charter***

During the year, the LRA's Vision and Mission Statements were re-formulated in order to reflect more accurately the Authority's role in Lesotho, and also to define better the nature and importance of the LRA's relationships with its Taxpayers and its Staff.

The Taxpayer Charter – a key statement of the Authority's relationship with, and commitment to, its Taxpayers – was also re-formulated.

The new Vision and Mission Statement, together with the new Taxpayer Charter, were officially launched at the LRA Day celebrations in September. They are also prominently displayed in all LRA premises, in order that all Taxpayers can see what the Authority stands for.

#### ***Contributions to Third Party Publications***

To further expand our communication with taxpayers, the LRA has forged partnerships with other organisations that produce publications relevant to tax education. The LRA contributed to the following publications:

- The Business Manual for Small and Medium Enterprises produced by the Basotho Enterprise Development Cooperation (BEDCO);
- The Lesotho Tourism Directory, which is a publication distributed by the Lesotho Tourism Development Corporation (LDTDC);
- The Newsletter of the Mohloli Chamber of Business.

The LRA has finalised an agreement to contribute to the newsletter produced by the Lesotho Institute of Accountants (LIA).

#### ***LRA Day and other Functions and Exhibitions***

LRA Day was celebrated in September, with street stalls manned by LRA personnel who distributed information to Taxpayers. The level of interest and uptake of information was high, particularly among students following commercially oriented courses of study. While the Authority is open throughout the year for the provision of advice and assistance to Taxpayers, this is nevertheless seen as an important opportunity to interact with all sections of Basotho society.

The Authority also confirmed its interest in, and support for, events of a more general interest, by running a stand at the Morija Arts and Cultural Festival.

During the year, the LRA held two highly successful new events, which will become part of the regular events calendar in future years. These are:

- The celebration of World Customs Day in January. This event recognises the importance of trade facilitation throughout the world and its impact on Lesotho's economy.



## COMMISSIONER GENERAL'S STATEMENT

(continued)



*Maseru Station clears all rail cargo from South Africa*

- In partnership with Nedbank Lesotho, Post Budget Dinner was hosted. The event brought together business leaders, academics and other stakeholders to discuss the Budget Speech as presented by the Minister of Finance and Development Planning.

### **Fighting Corruption**

The LRA has a zero tolerance policy to corruption. Unfortunately it is not possible to eliminate corruption completely; but the Authority strives to remove opportunities for corruption, and to identify and punish such instances of corruption as they occur.

In April 2006, the Board of Directors approved a new Anti-Corruption strategy. One of the key recommendations was that the Authority should, wherever possible, ensure that clear, unambiguous and well-documented procedures which limit the scope for individual discretion, are in place. Measures have been taken during the year, and will continue to be taken, to ensure that the recommended strategy is followed.

As a measure of demonstrating the Authority's commitment to the principle of accountability, all LRA staff who interact with Taxpayers, whether in the Advice Centres or at the border posts, have been issued with new name badges. These badges bear a photograph of the staff member, and have their name and staff identity number clearly displayed. Furthermore, the new LRA Taxpayer Charter states explicitly that Taxpayers have a right to know the name and identity of the LRA officer serving them.

Dr Charles Jenkins  
Commissioner General



## FINANCIAL STATEMENTS

for the year ended 31 March 2007

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*The Advice Centre in Maseru has a computerized banking hall that facilitates all tax transactions*







## 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 28 to 36 were approved by the Board, and signed on its behalf by:

**Matlotliso Ntoane**

*Chairperson*

12 March 2007

**Dr Charles Jenkins**

*Commissioner General*

12 March 2007



## REPORT OF THE AUDITOR GENERAL



Office of the Auditor General  
P.O. Box 502, Maseru 100  
Lesotho

**REPORT OF THE AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF  
LESOTHO REVENUE AUTHORITY  
FOR THE YEAR ENDED 31 MARCH 2007**

Moores Rowland Chartered Accountants have audited the financial statements of Lesotho Revenue Authority set out on pages 3 to 11 for the year ended 31 March 2007. These financial statements are the responsibility of the authority's directors. My responsibility is to express an independent opinion on these statements, based on my audit.

### **Scope**

I conducted the audit in accordance with International Standards on Auditing. Those standards require the auditors to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes:

- Examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by the management; and
- Evaluating the overall financial statements presentation.

I believe that my audit provides a reasonable basis for my opinion.

### **Audit Opinion**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the authority at 31 March 2007 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Revenue Authority Act 2001.

**K. L. MOU**  
f/AUDITOR GENERAL

**28 August 2007**



## INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2007

	Notes	2007 M	2006 M
<b>INCOME</b>			
Government funding		99 200 000	92 120 000
DFID grant received	13	5 939 853	11 037 720
Interest received		4 045 877	2 520 934
Storage income		326 581	429 302
Commission received		53 070	46 742
Other Income		427 672	119 830
<b>Total income</b>		<b>109 993 052</b>	<b>106 274 528</b>
<b>EXPENDITURE</b>			
<b>Costs of collection:</b>			
Staff related expenses		52 982 926	50 508 988
Inspection and enforcement expenses		2 065 421	1 798 327
<i>Total costs of collection</i>		<i>55 048 347</i>	<i>52 307 315</i>
<b>Administration expenses:</b>			
Staff related expenses		15 815 617	15 111 266
Administration expenses		24 388 937	18 925 827
Vehicle running expenses		1 114 170	980 748
<i>Total administration expenses</i>		<i>41 318 724</i>	<i>35 017 841</i>
DFID grant expenditure	13	5 939 853	11 037 720
<b>Total expenditure</b>		<b>102 306 924</b>	<b>98 362 876</b>
<b>Surplus/(deficit) for the year</b>	3	<b>7 686 129</b>	<b>7 911 652</b>



## BALANCE SHEET

as at 31 March 2007

	Notes	2007 M	2006 M
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	35 709 636	41 235 366
<b>Current assets</b>			
Accounts receivable	6	272 838	354 374
Bank and cash	7	46 517 762	37 462 039
Collection Accounts	8	164 415 167	42 654 938
		211 205 767	80 471 351
<b>TOTAL ASSETS</b>		<b>246 915 403</b>	<b>121 706 716</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
GOL funding	9	73 312 033	73 312 033
Accumulated surplus/(deficit)		671 173	(6 393 623)
		73 983 206	66 918 410
<b>Non-current liabilities</b>			
Provisions	10	5 982 644	10 526 262
<b>Current liabilities</b>			
Collection accounts	8	164 415 167	42 654 938
Accounts payable and accruals	11	2 534 387	1 607 107
		166 949 554	44 262 044
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>246 915 403</b>	<b>121 706 716</b>





## STATEMENT OF CHANGES IN CAPITAL AND RESERVES

for the year ended 31 March 2007

	Notes	GOL Funding M	Accumulated excess expenditure over income M	Total M
<b>Balance at at 01 April 2006</b>		73 312 033	(14 305 275)	22 603 766
Surplus for the year ended 31 March 2006		–	7 911 652	7 911 652
<b>Balance as at 01 April 2006</b>		73 312 033	(6 393 623)	66 918 410
Prior year adjustment	14	–	(621 333)	(621 333)
Surplus for the year ended 31 March 2007		–	7 686 129	7 686 129
<b>Balance at 31 March 2007</b>		<b>73 312 033</b>	<b>671 173</b>	<b>73 983 206</b>



*LRA also assists the Ministry of Finance in the sale of revenue stamps and the collection of traffic fines at the Maseru Advice Centre Banking Hall*



## CASH FLOW STATEMENT

for the year ended 31 March 2007

	2007	2006
Notes	M	M
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Surplus for the year	7 686 129	7 911 652
<b>Adjustment for:</b>		
Depreciation	7 543 350	7 866 966
Prior year adjustment	(251 003)	–
Gain on disposal	(164 124)	(81 801)
<b>Changes in working capital:</b>		
Decrease/(increase) in accounts receivable	81 536	(7 548)
(Decrease)/increase in accounts payables, accruals, provisions, collection accounts and interest accrued	115 385 609	(9 635 938)
<b>Net cash outflow from operating activities</b>	<b>130 281 496</b>	<b>6 053 331</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	370 331	(1 986 405)
Proceeds on disposal of assets	164 124	270 892
<b>Net cash outflow from investing activities</b>	<b>534 455</b>	<b>(1 715 513)</b>
<b>CASH FROM FINANCING ACTIVITIES</b>		
GOL capital funding	–	–
<b>Net cash inflow from financing</b>	<b>–</b>	<b>–</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>130 815 951</b>	<b>4 337 818</b>
<b>CASH AND CASH EQUIVALENTS AT 01 April 2006</b>	<b>80 116 977</b>	<b>75 779 159</b>
<b>CASH AND CASH EQUIVALENTS AT 31 March 2007</b>	<b>210 932 929</b>	<b>80 116 977</b>



# STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March 2007

## 1. STATEMENT OF ACCOUNTING POLICIES

### 1.1 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.

### 1.2 Income

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

### 1.3 Property, plant and equipment

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

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

### 1.4 Provisions

Provisions are recognised when the Authority 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.

### 1.5 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 contracts.

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

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



## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 1.6 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.

*Mohale's Hoek Advice Centre is now the administrative centre for the Southern districts of Mafeteng, Mohale's Hoek, Quthing and Qacha's Nek*







## NOTES TO THE FINANCIAL STATEMENTS

### 1. SURPLUS FOR THE YEAR

	2007 M	2006 M
Surplus for the year is stated after charging:		
Board fees and expenses	481 225	886 920
Auditor's remuneration	252 620	252 621
	<b>733 845</b>	<b>1 139 541</b>

### 2. PROPERTY, PLANT AND EQUIPMENT

	Accumulated		2007		2006	
	Cost	depreciation	Carrying	Cost	depreciation	Carrying
	M	M	amount	M	M	amount
			M			M
<i>Owned assets</i>						
Immovable property	41 293 974	103 438 942	27 855 032	41 015 666	10 479 935	30 535 731
Land	29 128	-	29 128	29 128	-	29 128
Motor vehicles	5 798 239	4 657 438	1 140 801	5 774 611	3 295 502	2 479 109
Furniture and fittings	5 312 846	1 667 847	3 764 999	4 926 923	1 153 755	3 773 168
Office equipment	3 067 498	1 847 985	1 219 513	2 729 572	1 118 030	1 611 542
Computer equipment	7 741 434	5 921 270	1 820 164	5 967 662	3 160 975	2 806 687
	<b>63 243 118</b>	<b>27 533 482</b>	<b>35 709 636</b>	<b>60 443 562</b>	<b>19 208 197</b>	<b>41 235 365</b>

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

#### For the year ended 31 March 2006

	Carrying			Carrying
	amount	Prior year	Additions	amount
	at beginning	adjustment	Depreciation	at end
	of period	M	M	of period
	M	M	M	M
<i>Owned assets</i>				
Immovable property	30 535 730	(1 818)	278 308	27 855 032
Land	29 128	-	-	29 128
Motor vehicles	2 479 109	(390 712)	546 780	1 140 800
Furniture and fittings	3 773 168	(7 428)	385 923	3 645 000
Office equipment	1 611 543	149	337 926	1 219 513
Computer equipment	2 806 687	29 468	839 016	1 820 164
	<b>41 235 365</b>	<b>(370 331)</b>	<b>2 387 952</b>	<b>7 543 350</b>
			<b>7 543 350</b>	<b>35 709 636</b>



## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 3. ACCOUNTS RECEIVABLE

	<b>2007</b>	<b>2006</b>
	<b>M</b>	<b>M</b>
Deposit	87 689	66 088
Prepayments	89 794	73 128
Accrued interest	51 873	67 056
Accounts receivable	43 483	148 102
	<b>272 838</b>	<b>354 374</b>

### 4. BANK AND CASH

Bank balances	6 871 165	9 666 246
88 day deposit account	13 015 672	12 278 637
Other short-term deposits	26 608 169	15 499 291
Cash on hand	22 756	17 865
	<b>46 517 762</b>	<b>37 462 039</b>

### 5. COLLECTION ACCOUNTS

VAT call account	21 198 484	16 110 291
VAT current account	(3 094 919)	(10 266 730)
Income Tax bank call account	6 473 590	52 213
Income Tax bank current account	63 448 293	(717 345)
Income Tax bank current account	37 926 135	688 661
LRA refund account	8 318 914	275 755
	134 270 497	6 142 844
<b><u>SACU Accounts</u></b>		
Current account	1 691 266	3 769 464
Customs and Excise bank accounts	28 453 403	32 742 629
	<b>164 415 167</b>	<b>42 654 938</b>

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

### 6. 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 have been received by Lethola Cost Associates.



## NOTES TO THE FINANCIAL STATEMENTS

(continued)

### 7. PROVISIONS

	2007	2006
	M	M
Gratuity	1 762 326	7 077 407
Severance pay	4 220 318	3 448 855
	<b>5 982 644</b>	<b>10 526 262</b>

### 8. ACCOUNTS PAYABLE AND ACCRUALS

Creditors	1 529 845	352 636
Accruals	339 663	230 275
Salary deductions and provisions	664 879	1 024 196
	<b>2 534 387</b>	<b>1 607 107</b>

### 9. OTHER PAYABLES

This represents interest earned on collection accounts payable to Government.

### 10. 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 the LRA, as suppliers 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
2007	462 327	12.2100	5 939 853
	<b>3 690 904</b>		<b>43 662 992</b>

### 11. PRIOR YEAR ADJUSTMENT

Fixed assets (correction of duplication 2006)	(370 331)	-
Re-instatement of 2006 Accruals erroneously reversed)	(254 006)	-
Other adjustments	3 005	-
	<b>(621 332)</b>	<b>-</b>



*Well served – a taxpayer receives copies of the new SAD 500 declaration form as proof of declaration of goods imported to Lesotho*



*Maseru Parcel Post operating from the main Post Office in Maseru clears goods sent by mail*