LESOTHO REVENUE AUTHORITY

ANNUAL REPORT
2013/14

CONTENTS

MR LEHLOMELA POWELL MOHAPI
(Chairman of the Board)

The year under review was both fulfilling and challenging in the same measure. The Authority embarked on a realignment and modernization journey in order to better position itself to be a dynamic and responsive revenue administration authority. This was further with the view to enhance effectiveness and efficiency of revenue collection. The initiatives to this end were on-going during the review period and are expected to bring a stream of benefits in the form of sustained revenue growth in the years to come.

The challenging aspect of the period under review was the revenue performance which fell short of the target by some 13%. Nevertheless, revenue performance had registered an 11% increase relative to that of the preceding year. The reporting period saw the Authority collecting M4,422 million which had grown from M3,995 million from the year before but fell short of the M5,066 million by about M645 million.

The revenue target of M5.066 billion represented a mission to grow revenue by 27%. That was always going to be a tall order in light of the state of economic growth performance. Following the 6.5% growth performance in 2012 the forecasting assumptions may have had some built-in optimism about various sectors of the economy going into 2013. In the end though, the economy is estimated to have grown by about 3% in 2013.

Performance gaps may have been created by the placement of staff in the new roles following the Organisational Structure Alignment to Strategy (OSAS) restructuring exercise. However that doesn't seem to explain the underperformance as the 11% growth in actual collections was a substantial step up from the 6% revenue growth of the year earlier. Instead the acceleration in revenue growth bears testimony to the high performance and excellence standards that have come to characterise the Authority over the years.

The Authority has achieved what it has because of support and compliance of the taxpayers. I therefore take this opportunity to thank the taxpayers for contributing towards building the country and the nation. I trust that the spirit they show will continue and that many more will come in and make their mark as we strive to build a well-resourced state. I also wish to thank our partners - the World Bank, the US Treasury Overseas Technical Assistance (OTA) and the South African Revenue Service (SARS) - for their support in helping us build capacity for an improved service in Lesotho.

The support and policy guidance by the Honourable Minister of Finance is gratefully acknowledged and profoundly appreciated. The collaboration with the Ministry's team has been very helpful. Fruitful collaborations have come from other government ministries, who are party to the Memorandum of Understanding on the Trade Portal project, and all the border agencies which I thank a great deal.

I thank the Commissioner General, his management team and all the staff of the Authority for their selfless dedication and efforts in their work and by extension in the service of the nation. None of the initiatives and milestones reported herein could have been possible without their commitment and perseverance.

Having taken the baton just after the end of the reporting period, which was overseen by the previous Board, it would be remiss of me not to pay tribute to their sterling oversight and leadership. They have had to work very early morning and weekend shifts in furtherance of their fiduciary functions over the affairs of the Authority. Filling the shoes of a seasoned campaigner like Mr Tseko Bohloa is a tough act to follow.

Looking ahead, 2014/15 marks the inception of the Authority's new strategic plan. The current Board couldn't have started their tenure at a better time. That said, the work ahead is enormous and requires resoluteness and commitment to performance excellence and agility to risks that the Authority has to manage.

MR. THABO LETJAMA
Acting Commissioner General

The journey of a thousand miles starts with one step. This famous Chinese proverb resonated more with us in the current reporting period than in many years before. In 2013/14, the preparation steps that the Authority got on the way in previous years, culminated in achievement of some major milestones towards completion of our ambitious change initiative.

Our change initiatives range from review of our strategy, improvement of our structure, enhancing our systems and to capacitating ourselves to serve better. These changes are required to ensure good performance of the LRA into the foreseeable future. However, in driving them, a delicate balance had to be struck between achievement of our vision for change and attainment of short term results in terms of revenue. In this regard we have managed to place staff in new positions within the new structure, continued our automation journey and embarked on various training and capacity improvement initiatives to ensure that we are able to surpass expectations of our clients and stakeholders.

The ending year marked the last of the three years of our 2011/12-2012/14 strategic plan. The major intent of this strategy was to improve service. It is therefore, with a sense of pride and gratification that one looks back over the three years to note that, even with the challenges we had, we maintained our focus, got started on our reform journey and that for some of our efforts results are beginning to show.

Thanks to our re-structuring we have now segmented our taxpayers into Large, Medium and Small. This has enabled us to be much closer to the taxpayer and to understand better and respond to their needs. Our automation journey is also rolling out well. For domestic taxes automation we developed and implemented the registration module of the system and went door to door registering taxpayers. By the end of the year we had developed the VAT module which was ready for piloting with our large taxpayers. On the Customs Modernisation front, we have managed to pilot our preferred trader scheme, got the Lesotho trade Portal ready for launch, reviewed Customs procedures, developed the Customs Automation system pilot for launch in Maputsoe, and started training staff to ensure success of the change we are bringing about.

I wish to therefore conclude by indicating that, whereas on the revenue front 2013/14 was a major challenge, it has been a success from the other three perspectives: getting to understand our taxpayers and positioning ourselves to exceed their expectations, improving our internal processes for us to be able to serve well, and enhancing our ability to grow and learn as an organisaton. It is our belief that with these three perspectives taken care of, improvement in revenue collection will ensue.

I and all LRA staff look forward to the new financial year with a renewed sense of responsibility to do even better in helping our country to provide a good living standard for all her citizens. We remain humbled and grateful for all the support, assistance and guidance that we have got from all our compliant taxpayers, our principals, our strategic and development partners and to all our stakeholders. With the support we got from them, and which we continue to enjoy, we will continue to aim high and strive to achieve better with every passing year.

CORPORATE PROFILE

MANDATE

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, as a public institution the Authority is fully accountable to Parliament through the Honourable Minister responsible for Finance.

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

VISION, MISSION AND STRATEGIC GOALS

VISION

"To be a Leading Performance Oriented Revenue Administration Characterized by Integrity, Innovation and Service Excellence."

MISSION

To collect revenue through:

- a capable and motivated workforce
- efficient and effective business processes
- strong and sustainable relationships with stakeholders

STRATEGIC GOALS

In order to deliver on its mandate and to work towards attainment of its vision, the Authority has identified following strategic objectives to focus on:

1. Revenue Optimisation: To collect all revenues rightly due under the Revenue laws of Lesotho.
2. Capable and Motivated Workforce: To focus on continuously developing and motivating the LRA workforce as an important resource for achieving the ambitions of the LRA as contained in the Vision and Mission Statement.
3. Service Excellence: To provide service that meets our valued taxpayers in regard to speed, transparency, reliability and dependability. Taxpayers must find it easy to do business with LRA.
4. Organisational Sustainability: To enhance the robustness of the LRA and ensure sustained good performance for the foreseeable future.
5. Enhance Compliance: To improve the capacity of the LRA in the combat of tax evasion and to continuously educate and publicise the business of the LRA in order to promote voluntary compliance.
6. Strong and Sustainable Stakeholder Relationships: To enhance the robustness of the relationships of the LRA with taxpayers and other stakeholders.

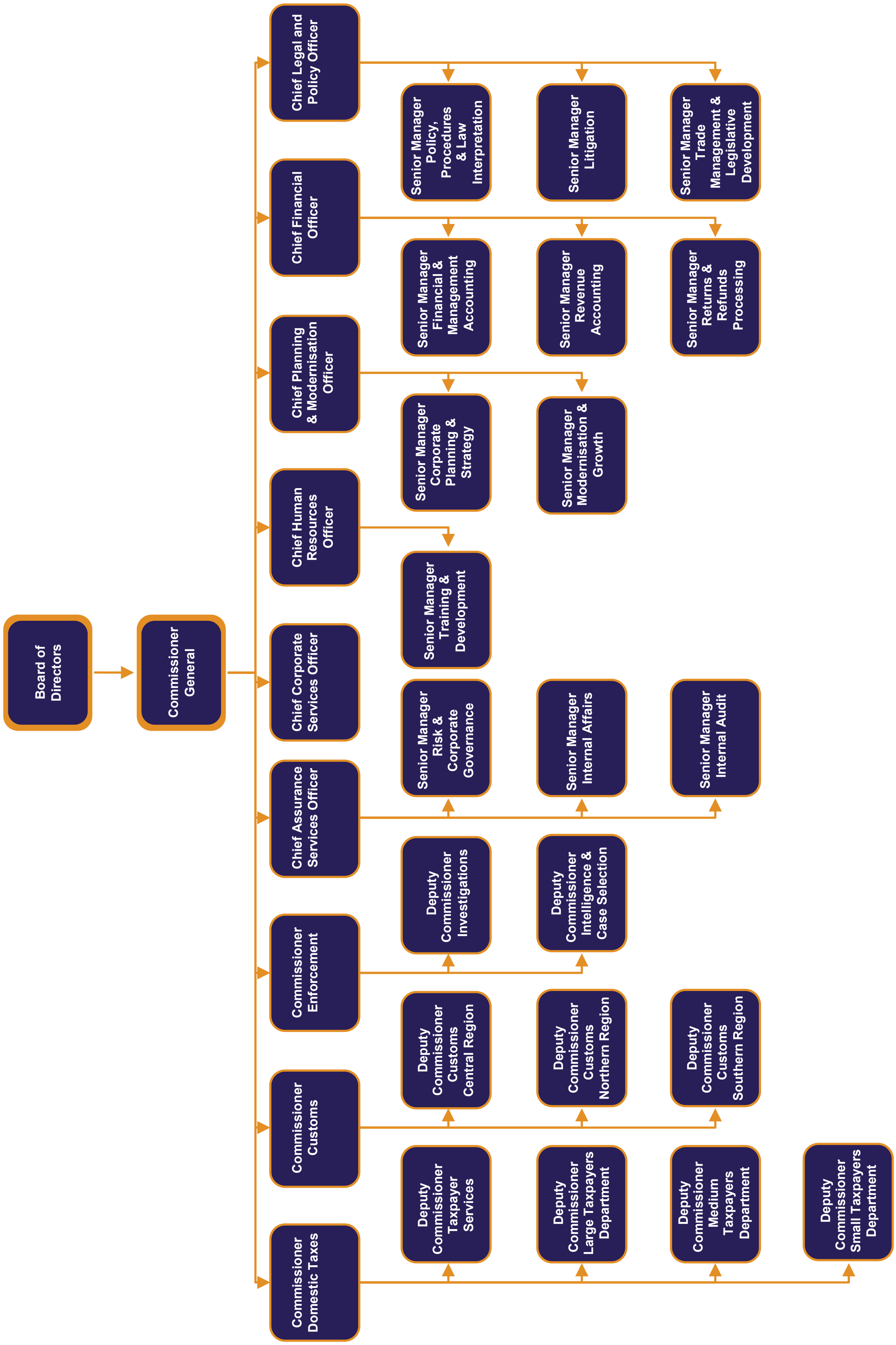
TAXPAYER CHARTER

We commit to providing our customers with:

* Efficient, effective and timely professional advice and service.
* Courteous treatment, rendered in the spirit of mutual respect.
* Clear and concise information and educational materials, so that taxpayers are aware and understand their legal obligations.
* Fair and impartial treatment, delivered to all without preference or favour.
* Confidentiality and integrity in ensuring that taxpayer information is used only for the purposes allowed by Law.
* Full compliance with all legal tax obligations.
* Honesty and integrity in providing accurate and complete information.
* Timely filing of returns and payments of all taxes due.

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

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


Board of Directors
Commissioner General
Chief Legal and Policy Officer
Senior Manager Policy, Procedures & Law Interpretation
Senior Manager Litigation
Senior Manager Trade Management & Legislative Development
Chief Financial Officer
Senior Manager Financial & Management Accounting
Senior Manager Revenue Accounting
Senior Manager Returns & Refunds Processing
Chief Planning & Modernisation Officer
Senior Manager Corporate Planning & Strategy
Senior Manager Modernisation & Growth
Chief Human Resources Officer
Senior Manager Training & Development
Chief Corporate Services Officer
Chief Assurance Services Officer
Senior Manager Risk & Corporate Governance
Senior Manager Internal Affairs
Senior Manager Internal Audit
Commissioner Enforcement
Deputy Commissioner Investigations
Deputy Commissioner Intelligence & Case Selection
Commissioner Customs
Deputy Commissioner Customs Central Region
Deputy Commissioner Customs Northern Region
Deputy Commissione Customs Southern Region
Commissioner Domestic Taxes
Deputy Commissioner Taxpayer Services
Deputy Commissioner Large Taxpayers Department
Deputy Commissioner Medium Taxpayers Department
Deputy Commissioner Small Taxpayers Department

- Revenue Collection: Despite missing the target set for 2013/14, the LRA registered an 11% growth in revenue collections remitting a total of M4, 421.9 million to the Government of Lesotho.
- The LRA's 10th Anniversary Celebrations: The Launch of the 10th Anniversary Celebrations marked a series of activities geared towards celebrating the milestones achieved by the Authority in its ten (10) years of existence.
- Organisational Structure Alignment to Strategy (OSAS) Project: The LRA completed the design and implementation of its organisational structure, including the placement of employees in the new structure.
- LRA Automation Programme: The LRA continued with the implementation of its automation programme through the implementation of a new tax system, records management system and the automation of CustomsCustoms processes.
- The Customs Modernisation Programme (CMP): Several milestones were registered under this programme such as the launch of the Lesotho Trade Portal, the pilot of its Preferred Trader Programme, procurement of non-intrusive inspection technology in the form of scanners, and the re-design of its basic Customs procedures in preparation for automation.
- LRA Special Revenue Collection Initiatives: The LRA engaged in a number of initiatives that were gauged towards the increase of the collection efficiency of the LRA.

Lesotho's economic performance was relatively low throughout the year 2013/14. According to the Central Bank of Lesotho annual report (2013:17), growth in domestic output slowed down in 2013/14 following robust expansion in 2012. Growth was realized in the Gross Domestic Product (GDP), though the increase was at a lower rate than in the previous year. Real GDP was estimated to have grown by 3.0 per cent in 2013 as compared to the 6.5 per cent growth rate of 2012. National productivity was generally lower than it was in the previous year, 2012. This was the case in all sub-sectors under the Primary, Secondary and Tertiary sectors. Although growth was realized in the Secondary and Tertiary sectors (4.7 per cent and 3.1 per cent, respectively), this was lower than the growth which was realized in 2012 where the Secondary sector had grown by 6.5 per cent and the Tertiary sector had grown by 5.7 per cent.

This report stipulates that the Primary sector output contracted by 0.03 per cent in 2013 compared with the growth of 9.0 per cent in 2012. This weak performance was attributed to the decline in the mining and quarrying sub-sector's production which registered a decline of 4.4 per cent in output during 2013 compared with a robust growth of 20.8 per cent in 2012. Production by different mines declined for varying reasons. The major impact came from the Mothae mine, which ended its trial phase in October 2012 and had not been operating since then. One of the major challenges for resuming production was insufficient supply of electricity. In addition, Letšeng mine temporarily stopped production in the first quarter of 2013 due to installation of cone crushers, which were intended to reduce diamond breakage. Similarly Liqhobong mine temporarily stopped operations in October 2013 in preparation for the installation of a new plant.

The reduction in output in the Secondary sector was a result of relatively lower productivity in the building and construction sub-sector. The building and construction sub-sector was estimated to have expanded by 11.3 per cent in 2013 compared with a growth rate of 34.4 per cent in 2012. The slowdown was attributed to low construction activity in 2013 following completion of some major projects in 2012, which included, the construction of a new shopping mall, the extension of another mall, and some Millennium Challenge Account (MCA) related projects. Nonetheless, some building and construction activity continued during the year. This included the construction of rural and urban roads, residential property development, construction works related to the Metolong dam and factory shells at the Tikoe industrial site.

The Tertiary sector output was influenced by performance in the wholesale and retail, repairs, restaurants and hotels, transport and communications and health and social work sub-sectors. The sector is estimated to have increased at a lower rate of 3.1 per cent in 2013 compared with 5.7 per cent in 2012. This deceleration was due to a slowdown in wholesale, retail trade and repairs, restaurants and hotels, health and social work, post and telecommunications, and transport and communications sub-sectors. Wholesale and retail trade was estimated to have grown at a rate of 2.1 per cent in 2013 compared with 12.3 per cent in 2012 reflecting stabilization of the sub-sector after surging in 2012 as new shops commenced operations at the shopping mall that was opened and the other one that had expanded. This sector is the largest contributor to LRA collections at 25 percent. It generates revenue through all the tax types (PIT at 5 percent, VAT at 53 per cent, CIT at 17 percent and WIT at 7 percent). A reduction in output in this sector has therefore adversely impacted tax revenue collection.

It is also worth analysing the trends in employment patterns since the increase or decrease affects some tax revenue such as PAYE and VAT due to the impact on disposable income. In the same CBL report, it has been indicated that there has been some improvement in employment by LNDC assisted companies in 2013. That is to say, the employment in these companies has increased to 47,971 employees in December 2013 from 45,877 employees in December 2012. This was in line with increased production activity in the manufacturing sub-sector, especially textiles and clothing.

On the other hand, employment in the public sector increased by 2.2 per cent in 2013/14 from 43,282 employees at the end of December 2012 to 44,234 employees at the end of December 2013. The government reviewed salaries of civil servants during 2013. In addition to the reviewed salaries, government employees' salaries were increased by 6.0 per cent in the 2013/2014 fiscal year.

Revenue targets are set based on a set of assumptions around key macroeconomic indicators, administrative factors, and actual collection trends. The actual performance of the key economic indicators in 2013/14 fell short of the forecasted performance, which means that the amount of taxable revenue contained within the economy was significantly less than had been projected. This has impacted revenue collection by the Authority.

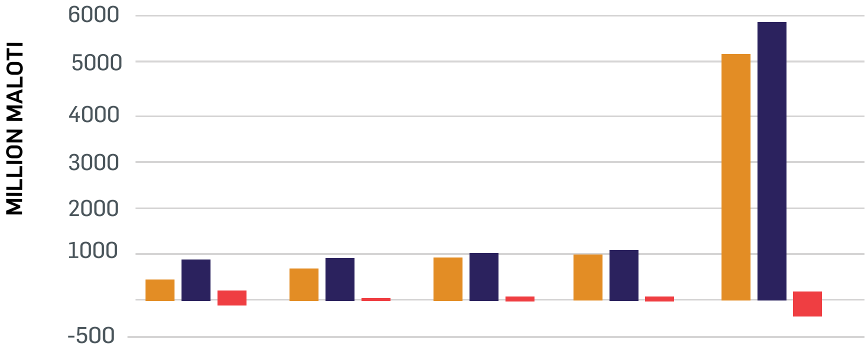
1. STRATEGIC GOAL 1: REVENUE OPTIMISATION

1.1. REVENUE COLLECTION PERFORMANCE

By the end of March 2014, the LRA had remitted a total of M4, 421.9 million, registering an 11 percent growth in revenue collection compared to the previous year where M3, 995.4 million was collected. Despite this growth, the LRA missed the set target of M5, 066.7 million by M644.8 million (13 percent).

Figure 1 below shows performance of overall remittances per quarter for the 2012/13 financial year. It can be seen that the LRA missed the target in each quarter, with the highest deficit (M291.0 million) having been recorded in the first quarter.

Figure 1: Combined remittances against the target in 2013/14 by quarters (million maloti)



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Total Remittance	880.08	1,097.61	1,215.67	1,228.60	4, 421.88
Overall Target	1,171.24	1,148.52	1,345.74	1,401.22	5,066.70
Variance	-291.16	-50.91	-130.07	-172.62	-644.82

Figure 2: Overall cumulative remittances by months in 2013/14 (Million Maloti)

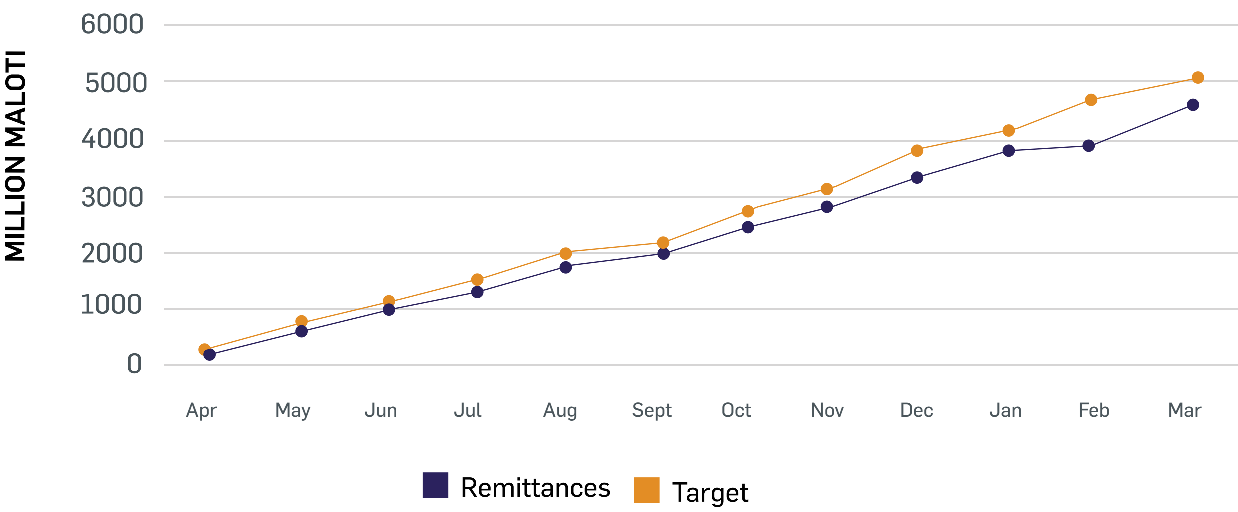


Figure 2 shows that the remmitances were below target for all the twelve months of the year. This immediately suggests that there was no unforeseen event that could have contributed to the under-performance. Instead the systematic underperformance indicates that the general conditions were different from what was forecast. The robust economic growth of 6.5% in 2012 could have heightened the optimism going into 2013. However as things turned out, the economy grew by only 3% with all the sectors slowing down substantially from the gains registered in 2012.

Table 1 below depicts revenue performance for 2013/14 by tax type. As shown below, Income Tax missed the target by M458.17 million and VAT by M186.70 million for the year, resulting in an overall negative variance of M644.8 million.

Table 1: Revenue performance by tax type

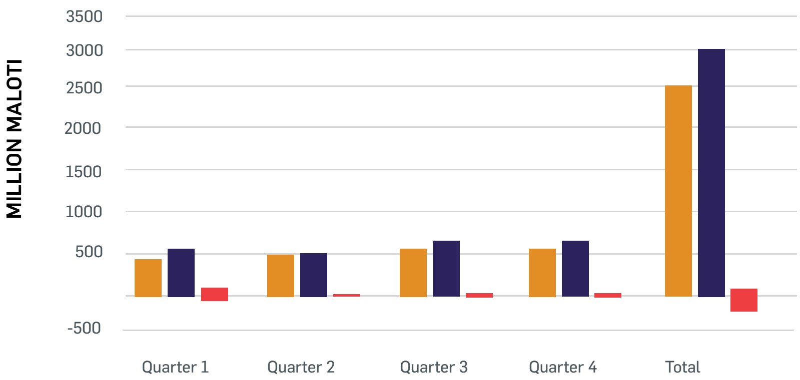
TYPE OF TAX	TARGET	ACTUAL	VARIANCE
	M,000,000	M,000,000	M,000,000
Income tax	3, 147.7	2,689.6	-458.1
VAT	1,919.0	1,732.3	-186.7
Total	5,066.7	4,421.9	-644,8

The following two sections provide a breakdown of the performance of the Income and Value Added taxes respectively.

1.1. INCOME TAX PERFORMANCE

As shown in Figure 3 below, Income Tax under-performed by M458.12 million for the year having struggled throughout the financial year to meet the quarterly targets.

Figure 3: Income Tax remittances in 2013/14 (Million Maloti)



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Income Tax	530.0	668.37	753.04	738.04	2,689.58
Target	717.3	683.81	865.13	881.46	3,147.70
Variance	-187.34	-15.44	-111.92	-143.42	-458.12

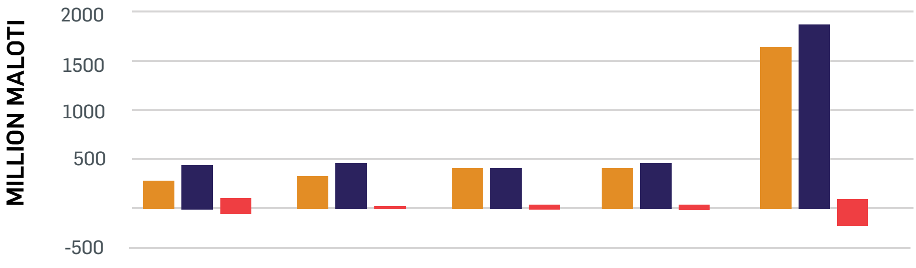
Personal Income Tax (PIT), which contributes 35 percent to the total tax collected, is comprised of the Public Sector PAYE and the Private Sector PAYE. During the year under review, PIT remittances were M1, 563.32 million against a target of M1, 914.00 million, missing the target by M350.68 million, (18 percent). Company Income Tax (CIT), which contributes 15 percent, remitted M665.26 million against a target of M716.7 million, also missing the target by M51.44 million (7 percent). Other Income Taxes, (Withholding Income Tax, Fringe Benefit Tax and Gambling Levy), missed their overall target by M56 million (52 percent).

Table 2: Income Tax performance by individual tax component

TYPE OF TAX	TARGET	ACTUAL	VARIANCE
	M,000,000	M,000,000	M,000,000
Personal Income Tax (PIT)	1,914.0	1,563.3	-350.7
Withholding Tax (WHT)	475.6	431.0	-44.6
Fringe Benefit Tax (FBT)	31.0	20.6	-10.4
Company Income Tax (CIT)	716.7	665.3	-51.4
Gaming Levy	10.3	9.3	-1.0
Total Income Tax	3, 147.7	2,689.6	-458.1

1.1. VAT PERFORMANCE

As shown in Figure 4 below, VAT also underperformed throughout the review period, recording a total shortfall of M186.7 million, also missing the targets in each quarter.



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
VAT	350.1	429.2	462.4	490.5	1,732.30
Target	453.9	464.7	480.6	519.8	1,919.00
Variance	-103.8	-35.5	-18.6	-29.2	-186.7

VAT makes up 39 percent of the total revenue collected and is comprised of Inland VAT and Import VAT. As shown in table 3 below, Inland VAT missed the target by M93.1 million and Import VAT by M93.6 million.

Table 3: VAT performance by individual tax component

TYPE OF TAX	TARGET M,000,000	ACTUAL M,000,000	VARIANCE M,000,000
Import VAT	593.6	500.0	-93.6
Inland VAT	1,325.4	1, 232.3	-93.1
Total VAT	1,919.00	1,732.3	-186.7

1.1. TAX REVENUE COLLECTION TRENDS FROM 2003/4 TO 2013/14

Table 4 below shows that annual revenue collection has increased from M1, 345.1 million to M4, 421.9 million since the inception of the LRA in 2003/04. This translates to a 229 per cent increase.

Table 4: Remittances from 2003/04 to 2013/14

YEAR	TOTAL REMITTANCES	% INCREASE	TARGET	% DEVIATION FROM TARGET
2003/04	1 345 110 000.00	-		
2004/05	1 561 695 241.25	16.1	1 580 390 000.00	-1
2005/06	1 580 295 865.66	1.2	1 610 451 179.68	0
2006/07	1 687 668 958.83	6.8	1 585 473 374.00	6
2007/08	2 069 236 786.71	22.6	1 846 985 755.55	12
2008/09	2 530 450 963.19	22.3	2 011 589 999.98	26
2009/10	2 815 303 112.00	11.3	2 527 800 000.00	11
2010/11	3 276 780 000.00	16.4	3 126 099 999.81	5
2011/12	3 770 745 665.46	15.1	3 647 500 000.00	3
2012/13	3 995 411 935.70	6.0	3 961 700 000.99	1
2013/14	4 421 882 241.00	10.7	5 066 700 000.00	-13

Revenue collection growth has been realised in each of the past 11 years of LRA existence. What is noteworthy with the reporting period's performance is that despite missing the target by 13%, revenue growth has been accelerated from 6% in 2012/13 to about 11% in 2013/14.

Figure 5: Tax revenue compared to Tax revenue as percentage of GDP - 2003/04 to 2013/14 (Million Maloti)

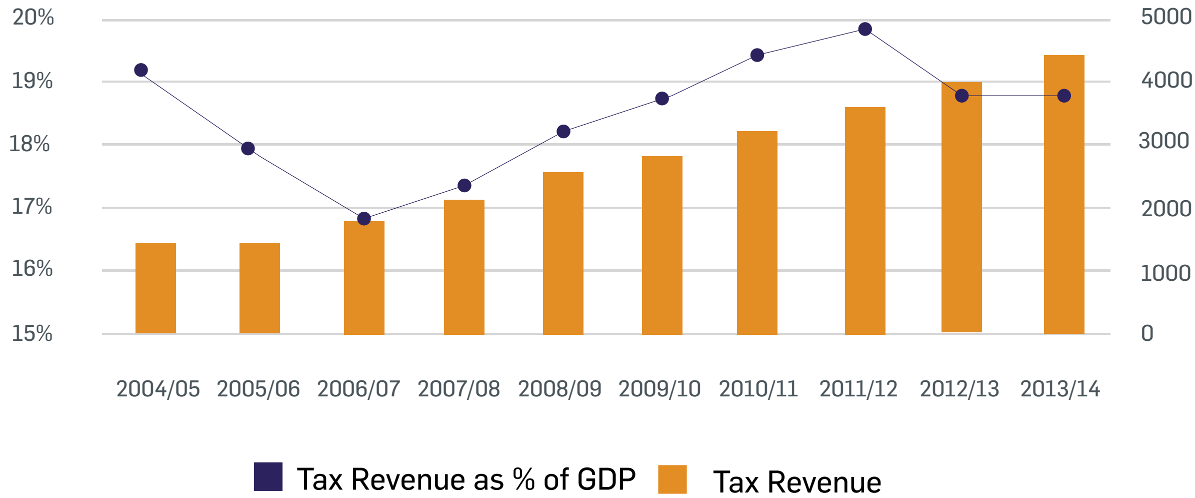


Figure 5 above shows that, as a percentage of GDP, revenue was maintained at 19 percent in the past two years. One of the drivers of the performance in this aspect is that a number of national development projects enjoyed tax exemptions for some of their expenditure, in a bid to stimulate economic growth.

Customs and Excise revenue increased by 23 percent from M5, 438.0 million in 2012/13 to M7, 034.10 million in 2013/14. Table 5 below shows the percentage breakdown of total remittances by revenue type for the past 10 years.

Table 5: Remittances by Revenue Source (percentages) 2003/04 to 2013/14

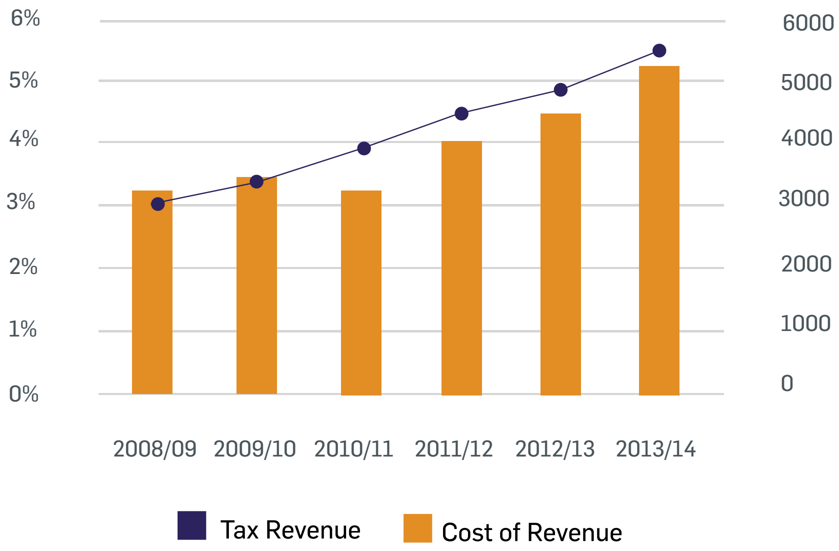
YEAR	CUSTOMS & EXCISE	INCOME TAX	VAT	TOTAL
2003/04	50.9	30.5	18.6	100
2004/05	55.7	25.5	18.8	100
2005/06	59.3	23.8	16.9	100
2006/07	62.2	21.8	16.0	100
2007/08	64.9	20.7	14.4	100
2008/09	66.0	20.8	13.3	100
2009/10	50.8	31.1	18.1	100
2010/11	52.2	29.1	18.7	100
2011/12	52.1	30.5	17.4	100
2012/13	57.6	25.0	17.4	100
2013/14	61.4	23.5	15.1	100

As shown above, Customs and Excise duties continue to account for more than half of the total revenue to the remitted to the GoL by the LRA. Considering the volatility of this revenue, and the fact that it is expected to decline over time, the LRA's major challenge is to enhance the collection of domestic taxes to reduce the dependency on this unpredictable revenue stream.

1.1. COST OF REVENUE COLLECTION

Figure 6 below demonstrates the revenue collected and the cost of collecting that revenue over the previous five (5) years. This cost is calculated by dividing the cost of internal operations by the total tax revenue and is an indicator of the efficiency in collecting tax revenue.

Figure 6: Cost of revenue collection - 2008/09 to 2013/14 (Million Maloti)



Between the 2008/09 and 2010/11 financial years, the LRA appears to have been more cost effective since it managed to raise tax revenue at the relatively lower cost. After the financial year 2010/11 the increase in tax revenue was achieved at an increased cost, largely due to current ongoing business improvements the LRA is undertaking.

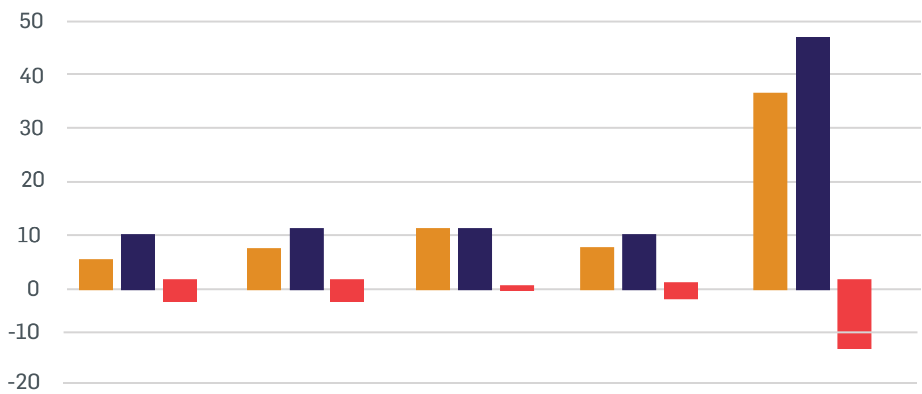
Staff costs increased by 21 percent from M147 million in 2012/13 to M178 million in 2013/14 due to cost of living adjustments plus percentage increase given as progression. The implementation of OSAS also increased the staff compliment. Other costs increased by 27 percent from M93.8 million in 2012/13 to M119.6 in 2013/14 due to the implementation of projects that were wholly funded by the Government of Lesotho and the implementation of the IT systems which increased Maintenance and Support costs.

The increase in cost of collection above can therefore before attributed to the current development journey that the LRA is on, which journey is incurring a lot of development costs which their amortisation increases the costs of collection.

NON-TAX REVENUE COLLECTION

The LRA also carries out the collection of toll fees on behalf of Road Fund. As shown in Figure 7 below, the total remittances of toll fees were M10.94 million below target.

Figure 7: Toll Fee Collections in 2013/14



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Collections	7.68	9.61	12.69	8.61	38.59
Target	11.89	12.89	13.0	11.71	49.53
Variance	-4.21	-3.28	-0.35	-3.1	-10.94

This is largely due to decreased traffic at the border resulting from the opening of the two malls in Maseru.

1.1. REVENUE COLLECTION INITIATIVES

Despite having missed its targets as presented in the sections above, the LRA engaged in a number of revenue collection initiatives during the year, which were aimed enhancing revenue collection despite the declining economic growth. These initiatives were carried out in order to ensure that resources were directed at areas bringing in the highest yields. The initiatives included:

Augmenting Cargo Inspections

In order to ensure compliance at the border posts, the LRA strengthened targeted cargo inspections at the five commercial border posts, the State Warehouse, and the Railway station. These inspections produced positive results as there were relatively more offenses detected and penalties collected; leading to improved border-revenue collections, and contraband prevention.

Supermarket Inspections - "Operation Blommers"

In order to verify Taxpayers' compliance with their tax obligations, such as record keeping, the LRA commenced an initiative dubbed "Operation Blommers" whereby inspections were conducted at selected supermarkets. This initiative was also aimed at getting a true picture of those supermarkets' performance through recording their sales. Through this initiative, the LRA identified incidences where some Taxpayers changed their normal working hours, increased their prices, and made arrangements to reopen during the night and sell to their customers when the LRA officers were not there to record their sales. This initiative also gave the LRA an opportunity to assist some Taxpayers who were having difficulties with applying the correct VAT rates. Increases in recorded sales at some of these premises were realised.

Motor vehicle inspections

During the year under review, the LRA commenced with roadblocks aimed at identifying motor vehicles whose owners have defaulted on instalment agreements which they had signed with the LRA. These motor vehicles had been detained but were subsequently released on the understanding that the owners would reciprocate and pay taxes for their motor vehicles in line with their commitment to the LRA to do so. This has not happened in some cases and the only option was to conduct roadblocks in order to detain these motor vehicles once again until taxes are paid on them.

Imported Vehicles Operation

This operation started in November 2013 with the objective to establish if all businesses under this industry had complied with the Lesotho Tax Laws, mainly the Income Tax Act and the VAT Act. This included finding out if all collected taxes had been declared to the LRA and also to find out if returns had been filed. As at 31st March 2014, a total of nine (9) businesses out of around thirty-five (35) had been audited and had assessments raised and issued. Action on the remaining businesses will be completed by end of September 2014. Total assessments of around M27 million were raised. Out of that a total of around M1.5 million has been collected. A total of five (5) businesses were distressed, two (2) of which paid their liabilities and were re-opened.

Lifestyle Audits

Having identified discrepancies between the lifestyle which some Taxpayers are leading and the returns that they are submitting to the Authority, the LRA embarked on an initiative to conduct lifestyle audits on high net-worth individuals and high profile figures to check their compliance. This group included professionals whose compliance was perceived not to be where it should be. These audits confirmed that there were indeed huge discrepancies and the Authority has started issuing tax assessments.

Development of a Penalty Grid

During this period, the LRA developed and published a penalty grid which recognises and promotes voluntary disclosure while discouraging non–compliance by amongst others:

- not imposing penalties if non–compliance is as a result of ignorance and there is demonstrable effort by a Taxpayer to comply;
- reducing penalties for voluntary disclosures;
- imposing penalties in all cases of deliberate non–compliance; and
- imposing additional tax/interest in all cases where it is permissible.

Amongst others, the penalty grid is going to promote transparency and ensure consistency in adjudicating over applications for remission of penalties or additional tax. Taxpayers will know in advance how additional tax and penalties are going to be imposed in the event of their failure to discharge their obligations under the tax laws. This kind of transparency significantly reduces the opportunity for corruption and abuse of discretionary powers.

Review of Debt Collection Manual

In order to reduce the long processes that had to be followed before actual collection of debts could commence, the LRA also reviewed its debt collection manual during this period. Provisions were introduced that are aimed at guiding officers' discretion when entering into debt agreements with Taxpayers to ensure that consistent and equal treatment is given to Taxpayers.

1.2.TAX RELIEF MEASURES

During the period under review, the Government's policy on tax relief, pro-poor policy and exemptions provided the following measures to on tax relief:

- The Tax Credit and Threshold was adjusted by a projected inflation rate of 6 percent to avoid the graduation of employees into the higher tax brackets; which can significantly reduce and undermine the value of employees' take-home pay , and hence their standard of living. The Tax Credit was increased from M5,755.00 to M6,100.00, so that the lowest annual salary at which individuals start paying tax was increased from M26,160.00 to M27,730.00, and the threshold for higher earners was increased from M48,744.00 to M51,670.00. These changes led to an amount of revenue foregone of M27.7 million.
- The Government of Lesotho's pro-poor policy of zero-rating basic foods and agricultural inputs has cost M499.04 million in terms of tax revenue foregone.
- In addition, the exempted sales led to foregone revenue of M204.4 million.

2. **STRATEGIC GOAL 2:** CAPABLE AND MOTIVATED WORKFORCE

The LRA sees its human resources as an important resource for achieving its vision and mission. In order to fulfil its mandate, the Authority undertook the following activities to facilitate the unleashing of the full potential of the LRA workforce.

1.3. ORGANISATIONAL STRUCTURE ALIGNMENT TO STRATEGY (OSAS) PROJECT

During this reporting period, the Authority continued with the implementation of the Organisational Structure Alignment to Strategy (OSAS) project. During this period, the project was involved in the placement of staff at all levels. Through the implementation of this project, the LRA segmented its Tax Collection Structure by classifying Taxpayers into Large, Medium, and Small segments. In order to more effectively serve the complex requirements of its Large Taxpayers, the Authority moved this department into new offices at the Maseru Mall and recruited all required personnel. Large Taxpayers now have dedicated Account Managers who serve the needs of a given group of Taxpayers. The LRA plans to implement the same approach of Account Managers to the Medium Taxpayer segment in the next year and to explore ways of serving the Small Taxpayer segment in the medium term.

1.4. TRAINING AND DEVELOPMENT

Various initiatives were undertaken towards the building of organisational capacity aimed at ensuring that employees are equipped to deliver excellent service to Taxpayers. Such initiatives included:

- Development of Technical Modules on Basic VAT Law: Updating of the Instructor Manual on Basic VAT Law was completed; this will be used in the future during in-house training to capacitate employees on revenue laws.
- Customs Modernisation Programme (CMP) Training: Under the CMP, a training programme was developed aimed at equipping staff and their managers with the requisite knowledge, skills, and behaviours to carry out their responsibilities under the new LRA Customs regime. During the reporting period, Customs officers at supervisory level attended a workshop aimed at introducing them to what the CMP is proposing, to validate the new processes, and to get tools which will assist them to be effective change agents for the CMP. The entire programme is planned to be delivered to Customs staff in the coming year.
- Other training attended included:
    - African Tax Administrator's Forum (ATAF) technical training on management of tax compliance. The purpose of the training was to effectively manage tax compliance through implementation of sound risk management, education and anti-corruption strategies as well as to equip officers with skills to facilitate, improve and manage tax compliance through implementation of appropriate strategies.
    - ATAF on-line training on tax auditing which is designed to teach participants the basic concepts and theory on tax auditing.
    - Training on International Standards for Financial Reporting (IFRSs) for Small Medium Enterprises aimed at equipping attendees with the latest updates on the IFRSs..

1.5. THE LRA AUTOMATION PROGRAMME

Having commenced in the previous financial year, the LRA continued with the implementation of its automation programme through the following projects:

Oracle Enterprise Tax and Policy Management (ETPM) system Project

This project commenced in the third quarter of 2012/13. The system is being implemented in phases, with different modules being implemented in each phase. During the year under review, the first module, the registration module, was implemented. As part of this implementation, a re-registration campaign was carried out which resulted in more than 21, 000 Taxpayers being registered into the system. The re-registration campaign will continue throughout the duration of the project, which ends in 2015.

Process re-designs and systems development work for the processing of VAT in the system, the next module to be implemented, was also embarked upon and the pilot for the processing of VAT is earmarked for the first quarter of 2014/15. The project is aimed at replacing the outdated tax systems currently within the LRA with a modern tax system which meets business requirements and will effectively allow for better delivery of service to Taxpayers.

Electronic Records Management

This project also commenced during the last financial year with the implementation of a records management system and the digitisation of LRA Taxpayer records. At the end of the preceeing financial year, one million records had been scanned into the system. During the year under review, 5.5 million additional records were scanned, and are now accessible online to LRA officers with appropriate security clearance. The movement of all Taxpayer records earmarked for archiving, to an offsite secure storage facility was also completed and the movement of current records will be completed in the first quarter of the 2014/15 financial year. The offsite storage facility is being managed by a professional records management consortium which maintains global records management standards for the Taxpayer records. The objective of the project is to create a paperless environment within the LRA, with physical Taxpayer records only being used in conflict resolution as necessary.

Customs Procedures and Automation Project

During the first quarter of the year under review, the Customs component of the LRA automation programme; which resides under the Customs Procedures and Automation project, was launched. Through this project, Customs clearance processes will be automated through the implementation of the United Nations Conference on Trade and Development's (UNCTAD) Automated System for Customs Data (ASYCUDA World). During this period, the development of basic Customs processes and the system prototype were completed. The due diligence, training, and site preparation were commenced in order to prepare for the pilot of the system at the Maputsoe Bridge in the second quarter of the 2014/15 financial year. This project also forms part of the bigger CMP. Stakeholder engagement has been core to this initiative with the LRA working hand-in-hand with the trader community to ensure an effective transition into a modern Customs administration.

Customs Scanners

Also being delivered under the Customs Modernisation Programme is the Customs scanners project; aimed at enhancing inspection capability at the Lesotho borders. The procurement process for two (2) Compact Mobile Scanners for inspection of motor vehicles and that for a Baggage Scanner for inspection of goods carried by pedestrians were concluded during the year under review. These scanners will be installed in the next financial year.

1.6.ICT INFRASTRUCTURE UPGRADES

As part of its automation programme, the LRA has also engaged in a process to enhance its existing ICT infrastructure through the following projects:

PABX Project

In the period under review, the LRA completed the rollout of its upgraded telephone system which now reaches all of the major LRA offices where there is a reliable and dedicated network connection. Through this initiative, the LRA has been able to make some savings on communication costs as all of the connected LRA offices can now call each other without incurring any additional costs. It has also provided better access to communication to LRA staff in the outskirts, allowing for faster Taxpayer services in cases where consultations are required.

Networking Infrastructure Upgrade

The LRA also continued with the process of upgrading its networking infrastructure. The year concluded with the project at the stage in which the LRA is currently awaiting the delivery of the networking equipment that will be used to implement the new network design. This project will ensure that the LRA's network is able to support the systems that the LRA is implementing under its Tax and Customs automation initiatives.

1.7. CUSTOMS MODERNIZATION

The Customs Modernisation Programme (CMP) was launched last financial year. Components of this programme include automation, and the development and delivery of training to Customs staff as has already been indicated above, as well as the following additional aspects:

Preferred Trader Programme

The LRA commenced a Preferred Trader programme in August 2012, by determining the national requirements for implementation. A pilot implementation of the programme began in November 2012, with two traders, who have been given preferential treatment at ports of entry after they were assessed for compliance and flagged as compliant and low risk. This is the first in a planned series of incentives aimed at encouraging high compliance among traders. The pilot was completed successfully in March 2014 and the LRA plans to roll it out to more traders in the 2014/15 financial year.

The success of the pilot has led to:

The Lesotho pilot being used as a benchmark within the Southern African Customs Union (SACU).

- Lesotho being the first of the five SACU Member States to complete the Pilot programme as scheduled by April 2014 in the WCO- SACU Preferred Trader Programme roll-out plan.
- Participation of the LRA in the SACU Peer Review Monitoring Team as one of SACU Preferred Trader Programme Pool of Experts. This is a continuous review mechanism established to monitor and assess Members' performance.
- Improvement of release times at the border post for the pilot traders, resulting in a 4-hour time saving for delivery of imports to the traders' premises, as measured by one of them, and improvement of 12.6%, growth in sales in the month of December 2013 reported by one of the companies compared to the 2.4% that they had projected. .

Lesotho Trade Portal

The LRA, in conjunction with the One-Stop-Business-Facilitation-Centre (OBFC) in the Ministry of Trade, launched the Lesotho Trade Portal, which is the first of its kind in Africa, during the review period. The portal is an information repository that all members of the public, both local and international, can find all the information that they require to effectively carry out trade in Lesotho.

Caledon's poort Border-Post Rehabilitation

On behalf of the Heads of Border Agencies (HOBA), the LRA is also in the process of refurbishing various border-posts in order to make them more responsive to business requirements. The focus for the period under review was the Caledonspoort Border Post; which includes the building of the border facility and staff housing. The project will be completed in the next financial year.

1.8. VAT FILING AT COMMERCIAL BANKS

During this period, the LRA added Post Bank to the list of local banks (Standard Lesotho Bank, FNB, and Nedbank) it already has an existing relationship with for filing of VAT returns. The 'filing at the Bank' facility was launched by the signing of an Memorandum of Understanding (MoU), and thereby enabling VAT registered businesses to file their returns at all Post Bank branches around the country.

1.9. CUSTOMER SATISFACTION SURVEY

The LRA completed the Customer Satisfaction Survey which had commenced in the last quarter of the previous financial year. This survey focused on eliciting views from external stakeholders (members of the general public) as well as internal stakeholders (staff). In order to ensure that the recommendations of the survey were effectively implemented, the LRA initiated a staff engagement initiative and formed cross functional teams which were made up of volunteers from different business areas. These teams researched further on how to improve areas highlighted by the Customer Satisfaction Survey and submitted recommendations to Management for implementation. Inputs from the cross functional teams and the results of the Customer Satisfaction Survey were used during the 2014/15 – 2018/19 strategy development process.

1.10. FINANCIAL MANAGEMENT

The LRA intensified its cost containment drive during2013/14. The following strategies were employed to reduce operational costs:

- Outsourcing of vehicles used to transport border staff;
- Entering into call-off contracts for provision of services such as consumables; and
- Implementation of a co-ordinated and streamlined Procurement Planning process.

Financial Management policies were also reviewed with the intention of improving amongst others, budgetary controls and the Management of working capital.

1.11. PROJECT FRAMEWORK

2013/14 saw great strides being taken in terms of the development of a project management framework as well as the building of a strong project management capability within the Authority. The project approach, with its accompanying project management processes and tools, is considered a vital vehicle for the implementation of the Authority's modernization agenda. The recruitment, training, coaching, and mentoring of project management personnel was carried out in 2013/14. The development of the framework was also carried out and it is to be approved and implemented organisation-wide in 2014/15.

1.12. STRATEGIC MANAGEMENT FRAMEWORK

The LRA's 2011/14 Strategic Plan came to a conclusion in 2013/14. During the last quarter of 2013/14, a new strategy was developed, deviating from the previously adopted time frame of 3 years and adopted a relatively longer five-year horizon. As part of this process, the Authority also developed a strategic management framework aimed at ensuring that the LRA's planning process is carried out in a consistent manner. The development of the framework has been completed and will be approved and implemented in the next financial year. A change management plan has also been developed to support the implementation of the strategy.

1.13. TAXPAYER OUTREACH PROGRAM IMPLEMENTATION

The LRA met with various key stakeholders regionally and nationally to establish and improve working relations. The stakeholders include the Leribe District Administrator, the Ministry of Trade and Industry, Cooperatives and Marketing in Thaba – Tseka, Mokhotlong and Mohale's Hoek, the District Councillors as well as the Ministry of Public Works and Transport in Quthing and Mafeteng.

Other stakeholder outreach initiatives included:

- A meeting with the District Liaison Committee in Mohale's Hoek to discuss cross-border issues.
- Participating at the BEDCO Flea Market and the Morija Arts and Cultural Festival through the Annual Taxpayer Education programme with the objective to disseminate information to the Taxpayers.
- Tax clinics that were targeted at new registrants and taxi operators in Mafeteng and Quthing;
- A meeting which was held with other Government Ministries to plan for the AMANI AFRICA II event that the Lesotho Defence Force will host in October 2014.
- HOBA meetings, including an Integrated Border Management Strategy development session. The strategy seeks to have a common border management approach among the various border agencies.
- LRA and SARS meetings to discuss operational issues, where it was agreed that a facilitated meeting between LRA Customs and SARS Taxpayer Education Unit Free State for the training of RSA VAT vendors will be undertaken to inform them of the LRA Customs processes on declarations.
- Visits to small and medium enterprises in 8 districts of Lesotho; the aim of the visits was to continue the dissemination of information on the new tax invoice requirements to the trading community.

6. **STRATEGIC GOAL 6:** ENHANCE COMPLIANCE

During 2013/14, the LRA undertook the following activities with the aim of increasing compliance to tax laws, thereby reducing tax evasion.

1.14. TAXPAYER EDUCATION

Regional Forums Targeted at Small Business Associations – Mafeteng & Leribe

Small business associations' forums were held in Mafeteng and Leribe districts on the 20th and 22nd August 2013. The forums were aimed at promoting a dialogue between the LRA and business associations with a view to facilitate, monitor and improve tax compliance by small entrepreneurs and also to gather taxpayers' feedback on some impediments to tax compliance. A presentation to empower the participants about a conventional approach to tax compliance was made. The presentation specifically dealt with registration, reporting, declaration and payment of due tax.

The forums were attended by seventy six (76) and fifty two (52) taxpayers in Mafeteng and Leribe, respectively. Tax literature (frequently asked questions booklet) was distributed for future reference, and Taxpayer registration forms were distributed to Taxpayers as part of continuous efforts to drive the Taxpayers' re–registration campaign. The promotional materials were also given to the participants in an endeavour to promote the LRA brand positively among Taxpayers.

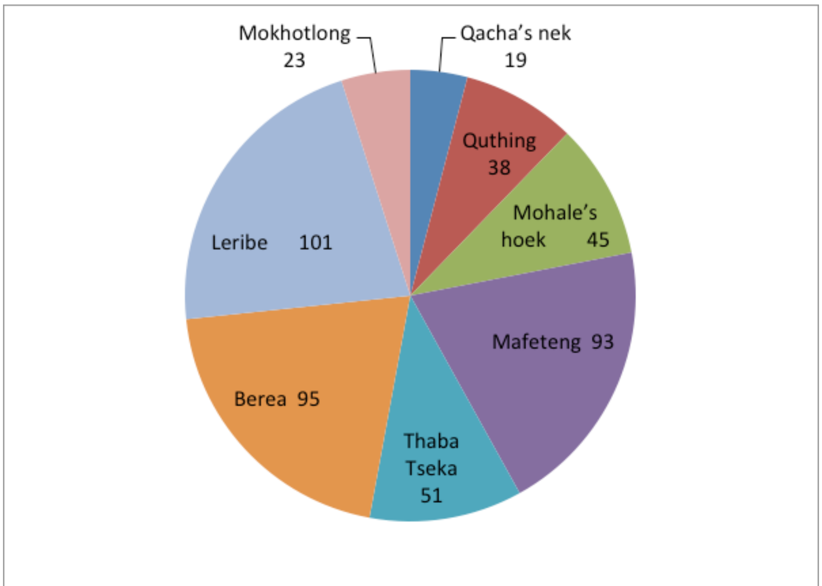
Mantšonyane Community Council Business Empowerment Workshop

The LRA Taxpayer Education Office and the Ministry of Trade and Industry, Cooperatives and Marketing were invited by the Mants'onyane Community Council in a business community workshop held in Mants'onyane. The purpose of the workshop was to sensitise the participants about the business opportunities available within the Mants'onyane community council area and also to encourage participants to comply with trade licensing and tax requirements while doing business. In total, the workshop was attended by over sixty (60) entrepreneurs where the Authority delivered a presentation on Requirements for Tax Compliance.

Tax Clinics Targeted at New Registrants

In its drive to enhance the quality of returns and prevent delinquency among new registrants, the LRA's Taxpayer Education Office collaborated with the LRA Customs Division and Lesotho Institute of Accountants (LIA) and held tax clinics targeted at new registrants in eight districts. The purpose of the tax clinics was to educate and guide new registrants about; the importance and benefits of keeping proper business records, filing of returns payment of Individual Income Tax & PAYE, and also to highlight the new additional requirements of RSA tax invoices. The tax clinics further enlightened participants about the benefits of paying tax in a modern society. Figure 6 below depicts the number of attendants per district:

Figure 8: Number of attendees per district



Tax Clinics targeted at Lesotho Post Bank (LPB) staff

The LRA held training for the Lesotho Post Bank's staff on filing of VAT returns at the LPB. The workshops were held in Maseru, Leribe, Quthing, Qacha's Nek and Mokhotlong districts. The key areas discussed included the process outline, benefits to the vendors, the bank and the LRA, the LRA and LPB responsibilities, and the responsibilities of the vendors. The participants were very enthusiastic to work with the LRA as this venture will increase their customer base, while enhancing revenue collection of the LRA. In total, the workshops were attended by 60 Lesotho Post Bank Frontline staff.

Taxpayer Education at Morija Arts and Cultural Festival

The LRA engaged on a campaign to educate the public participating at the Morija Arts and Cultural Festival on tax matters. Attendants were educated about the re-registration campaign and its benefits, the benefits of paying tax, the mandate of the LRA, PAYE administration and the new or additional requirements of the RSA tax invoice.

Attendants were also asked questions on the education provided to them to test their understanding and appreciation of tax matters, and those who got the answers correct were given various LRA branded promotional items in the form of t- shirts, squeeze bottles, pens, cooler bags, pencil cases and rulers. The event was graced by the presence of the LRA's mascot, "Morontlhotlho" who portrayed a friendlier face of the LRA to the public.

Taxpayer Education to Basotho Working in RSA Mines

In an effort to educate and improve compliance among Basotho working in RSA mines, the LRA conducted roadshows to sensitize the miners about requirements for import and export of goods into and out of Lesotho. The miners were educated in depth about Customs processes and documents required for clearance of goods at the ports of entry. The presentations in particular covered the procedure for importation of motor vehicles into Lesotho, and also highlighted the additional requirements for importation of goods as well as treatment of direct and indirect imports for tax purposes. The roadshows were held in Gauteng, Mpumalanga, Free State (Welkom) and North West (Klerksdorp) and, in total, over 3000 miners attended the roadshows.

Pre Filing Season Tax Clinics:

In its drive to improve the filing rate and quality of tax returns filed by the Taxpayers, the LRA held a series of tax clinics countrywide. The purpose of the tax clinics was to enlighten the participants about basic record keeping, allowable and non-allowable expenses, proper filing of income tax returns, processes and procedures for payment of income tax due. In total, the workshops were attended by over 1780 Taxpayers.

High Schools Debate Competitions

The LRA, in an effort to enhance voluntary compliance among the future Taxpayers in Lesotho, organized and held high school debate competitions throughout the ten districts. The debate competitions were primarily aimed at imparting and heightening tax knowledge among the students at their tender ages with a view to promote compliance. In total 194 schools and 582 students took part in the competitions. Table 6 below depicts participation by district.

Table 6: Attendance by schools and students

DISTRICT	NUMBER OF SCHOOLS	NUMBER OF STUDENTS
Botha – Bothe	16	48
Mohale's Hoek	13	39
Qacha's Nek	20	60
Leribe	42	126
Berea	27	81
Mafeteng	12	36
Maseru	36	108
Thaba – tseka	10	30
Quthing	10	30
Mokhotlong	8	24
NUMBER OF SCHOOLS & STUDENTS	**194**	**582**

Workshop For Car Dealers - Imported Vehicles

With the objectives of enhancing working relationship and encouraging voluntary compliance, a workshop was held for all imported vehicles dealers, whereby around fifty (50) car dealers were present. The discussions and presentations focused on the obligations of both the Taxpayers to comply with tax laws and the obligations of the Authority to assist them to comply.

Prosecutions

Two cases were taken to court following taxpayers' failure to honour their tax obligations. One judgement is still outstanding and will be delivered in the 2014/15 financial year. The other case was postponed due to ill health of the director and a new date will be set for the next financial year.

1.15. HIGH PROFILE CASES

During the period under review, the LRA attended to a number of cases relating to defending claims of unfair dismissals, abetting smuggling and tax evasion, soliciting or accepting bribes, illegal importation of vehicles and fraud.

Prominent amongst them were four high profile cases involving failure to declare correct income for tax purposes by three companies and an individual taxpayer. One company filed a security in the total amount of M 500,000.00 pending the finalization of a case it had instituted in court. The other had its immovable property attached while the third one is under liquidation. Similarly the said individual's immovable property is also under judicial attachment.

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 control 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 they include a comprehensive budgeting and reporting system operating within strict deadlines and appropriate framework.

The Financial Statements are prepared in accordance with International Financial Reporting Standards and they are based upon appropriate policies consistently applied and supported by reasonable and prudent estimates.The financial statement set out on pages 40 to 51, which have been prepared on a going concern basis, were approved by the board and signed on behalf , by

Chairman

26/06/2014
Date

Commissioner General

26/06/2014
Date

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LESOTHO REVENUE AUTHORITY FOR THE YEAR ENDED 31 MARCH 2014

Moores Rowland Chartered Accountants under Section 15(1) of the Audit Act 1973 have audited the accompanying financial statements of Lesotho Revenue Authority, which comprise the balance sheet as at 31 March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 40-51.

MANAGEMENT RESPONSIBILITY ON THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 31 March 2014, and of its financial performance and its 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 of 2001.

Hliphafa

LUCY L. LIPHAFA (MRS)
AUDITOR GENERAL

3 July 2014

OFFICE OF THE AUDITOR-GENERAL
AUDITOR GENERAL
2014 -07- 03
P.O. BOX 502
MASERU 100 LESOTHO

LESOTHO REVENUE AUTHORITY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

		2014	2013
INCOME	**NOTES**	**M**	**M**
Government funding		287,641,440	183,508,245
Interest received		2,090,274	2,393,376
Tollgate fees Income		4,996,491	5,485,410
Storage income		1,453,606	1,414,024
Commission received		122,740	106,029
Other income		69,744	500,191
LRA/SARS Project funds		1,039,235	-
Amortisation - Projects funds		3,556,264	-
		300,969,794	193,407,275
Staff related expenses		178,073,564	147,185,508
Administration expenses		106,448,663	76,556,725
Inspection and enforcement expenses		6,747,772	11,529,581
Vehicle running expenses		6,397,905	5,745,809
Total expenditure		297,667,905	241,017,623
Surplus /(deficit) for the period	3	3,301,889	(47,610,348)

LESOTHO REVENUE AUTHORITY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	Notes	2014	2013
ASSETS		**M**	**M**
NON CURRENT ASSETS			
Property, Plant and Equipment	2	181,513,881	127,618,124
Current Assets			
Accounts Receivable	6	714,527	356,149
Bank and Cash	7	142,252,196	39,778,041
Collections Bank Accounts	8	21,151,728	(28,428,433)
Total Current Assets		164,118,451	11,705,757
TOTAL ASSETS		**345,632,332**	**139,323,880**
CAPITAL AND LIABILITIES			
Capital and Reserves			
GOL Funding	9	214,265,998	177,647,104
Accumulated Surplus		48,926,908	(39,457,648)
Fund account	15	1,154,603	953,379
TOTAL CAPITAL AND RESERVES		**264,347,509**	**139,142,835**
NON-CURRENT LIABILITIES			
Provisions for Terminal Benefits	11	15,932,816	15,089,360
		15,932,816	15,089,360
CURRENT LIABILITIES			
Provision for leave pay	12.	2,174,596	1,640,896
Collections Account balances Remitable	8	21,151,728	(28,428,433)
Accounts Payable and Accruals	13	42,025,683	11,879,222
Total Current Liabilities	5	65,352,008	(14,908,315)
TOTAL CAPITAL AND LIABILITIES		**345,632,332**	**139,323,880**

LESOTHO REVENUE AUTHORITY STATEMENT OF CHANGES IN CAPITAL AND RESERVES FOR THE PERIOD ENDED 31 MARCH 2014

	GOL Funding	Accumulated Surplus	Total
	M	M	M
Balance at 1 April 2010	**119,478,140**	**33,180,054**	**152,658,194**
Prior year adjustment	-	(98,208)	(98,208)
Surplus for the period	-	(27,921,879)	(27,921,879)
Balance at 31 March 2011	**119,478,140**	**5,159,967**	**124,638,107**
Funds from Government	17,878,666	-	17,878,666
Prior year adjustment	-	(2,179,102)	(2,179,102)
Surplus for the period	-	3,320,597	3,320,597
Balance at 31 March 2012	**137,356,806**	**6,301,462**	**143,658,268**
Funds from government	40,290,298	-	40,290,298
			-
Prior year adjustment	-	1,851,218	1,851,218
			-
Surplus for the period	-	(47,610,328)	(47,610,328)
			-
Balance at 31 March 2013	**177,647,104**	**(39,457,648)**	**138,189,456**

Funds from government	28,596,687	-	28,596,687
Grant - Project funding	95,203,313	-	95,203,313
Prior year adjustment	(83,624,842)	85,082,666	1,457,825
Current year amortisation	(3,556,264)		(3,556,264)
Surplus for the period	-	3,301,889	3,301,889
Balance as at 31st March 2014	**214,265,998**	**48,926,908**	**263,192,906**

LESOTHO REVENUE AUTHORITY CASH FLOW STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2014

	Notes	2014	2013
Cash flows from operating activities		M	M
(Deficit)/Surplus for the year		3,301,889	(47,610,328)
Adjustments for item not involving cash movement:			
Interest (received)/paid		(2,090,274)	(2,393,376)
Depreciation		10,227,023	13,517,372
Prior year adjustments	14.	85,082,666	1,851,233
(Gain)/Loss on fixed asset disposal		(2,212)	(374,388)
Surplus /(deficit) before changes in working capital		96,519,092	(35,009,487)
(Increase)/Decrease in accounts receivable		(358,379)	35,355
(Decrease) /increase in accounts payable			
Provisions and collection accounts		81,103,778	(78,584,141)
Net cash inflow from operating activities		177,264,492	(113,558,273)
Cash flows from investing activities			
Interest received		2,090,274	2,393,376
Purchase of property, plant and equipment		(64,148,528)	(65,984,556)
Proceeds on disposal of assets		27,976	377,840
Net cash outflow from investing activities		(62,030,279)	(63,213,340)
Cash flows from financing activities			
GOL capital funding		(58,584,427)	40,290,298
Grant - Project funding		95,203,313	0
Fund account		1,154,603	953,379
		37,773,489	41,243,677
Increase/(Decrease) in cash and cash equivalents		153,007,702	(135,527,936)
Cash and cash equivalents at beginning of the year		10,396,229	145,924,163
Cash and cash equivalents at end of the period		163,403,931	10,396,227

1. Accounting policies

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

1.1 Statement of compliance

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

1.2 Property, Plant And Equipment

Owned assets

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

Depreciation

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

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

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

1.3 Impairment

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

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

1.4 Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs.

Subsequent to initial recognition, these instruments are measured as set out below.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

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

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

Projects Income	Note	2014	
		M	M
LRA SARS Income		1,039,235	-

1.6 Provisions

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

1.7 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on

hand and deposits held at banks, net of overdrafts, all of which are available for use by the Authority unless otherwise stated.

1.8 Employee Benefits

Short Term Employee Benefits

The costs of all short term employee benefits is recognised during the year in which the employee renders related service. The provision for employee entitlements to wages, salaries, and annual sick leave represents the amount which the organisation has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on wage and salary rates.

3. (Deficit)/Surplus for the month

	2014	2013
	M	M
(Deficit)/Surplus for the period is stated after charging the following:		
Depreciation	10,227,023	13,517,372
Board fees and expenses	1,243,985	1,219,784
Auditors' remuneration	308,367	263,825
	11,779,375	15,000,981

4. Related parties

4.1 Identity of related parties

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

4.2 Material related party transactions

Government of Lesotho Funding

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5. Financial instruments

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

5.1. Currency risk

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

5.2 Interest rate risk

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

5.3 Credit risk

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

5.4 Fair values

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

		March 2014 M	March 2013 M
6.	Accounts receivable		
	Deposit	220,789	220,790
	Prepayments	439,097	98,540
	Accrued interest	1	4,679
	Accounts receivable	47,240	27,240
	Other debtors	7,400	4,900
		714,527	356,149
7.	Bank and cash		
	LRA Operating account	(752,752)	(4,676,817)
	88 day deposit account - Ned bank	7,787	2,180,503
	Other short term deposits	51,890,615	22,833,625
	LRA Call account	37,349,262	2,162,059
	LRA SARS Account	433	40,694
	IRMS Account	18,550,625	147,231
	Border refurbishment project account	34,033,468	16,106,643
	Fund Account	1,154,603	953,379
	Cash on hand	18,155	30,724
		142,252,196	39,778,041
8.	Collection accounts		
	LRA refund account	1,023,818	(21,881,459)
	VAT call account	1,366,489	72,055,411
	VAT current account	638,620	(91,545,658)
	Income Tax call account	11,645,284	62,588,752
	Income Tax current account	3,854,454	(57,952,663)
	Income Tax refund account	889,118	(780,416)
	Refunds Cash on hand	-	1,468
	Toll Fees Current account	751,978	65,299
		20,169,760	(37,449,266)
	SACU accounts		
	Current account	65,034	50,136
	SACU 32 day account- Nedbank	80,032	80,002
	Customs call account	836,902	8,890,695
		981,968	9,020,833
	Net Balance	21,151,728	(28,428,433)

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

9. Government funding

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance and Development Planning) and the Lesotho Revenue Authority provided for the transfer of all assets (non-movable and movable) free of charge, previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the Lesotho Revenue Authority. These assets have been revalued by Lethola Cost Associates. The Government of Lesotho through the Ministry of Finance Continues to provide funding for major capital expenditure.

10. Border Post Refurbishment

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

11. Provision for terminal benefits

	March 2014 M	March 2013 M
Gratuity	7,205,432	7,615,369
Severance pay	8,727,384	7,473,991
	15,932,816	15,089,360

12. Provision for leave pay

Leave pay	2,174,596	1,640,896
	2,174,596	1,640,896

13. Accounts payable and accruals

Creditors	27,428,294	3,368,376
Accruals	13,008,869	7,940,707
Salary Control Account	(2,398)	686
Other creditors	1,590,917	569,453
	42,025,683	11,879,222

14. Prior year adjustments M85,082,666

These are reconciling items that were pending from previous years, which were only resolved in the current year. In addition the LRA started amortising capital injection for projects funds received and capitalised in previous financial year.

15. Trust/Fund Account(Rental income Mascon)

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

LESOTHO REVENUE AUTHORITY

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