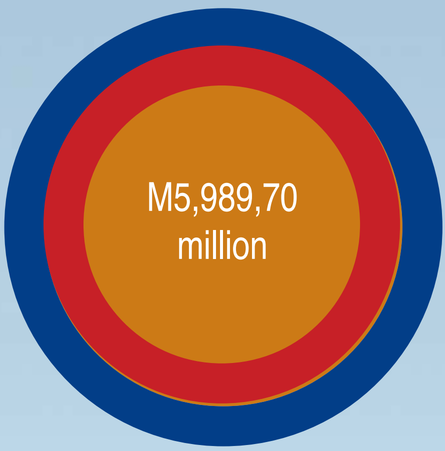
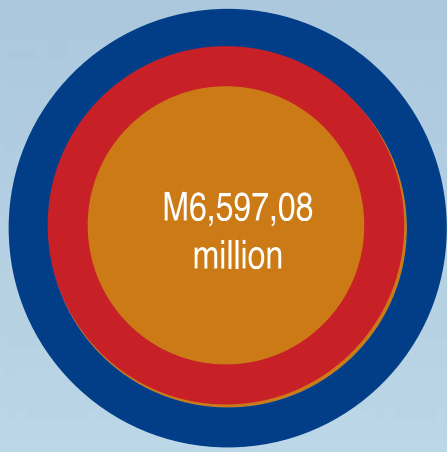
Lesotho Revenue Authority

Annual Report 2017 - 2018

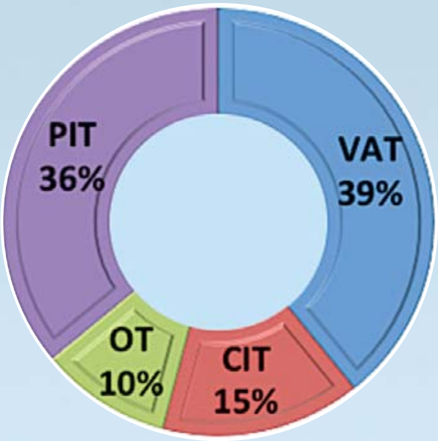
Remittances



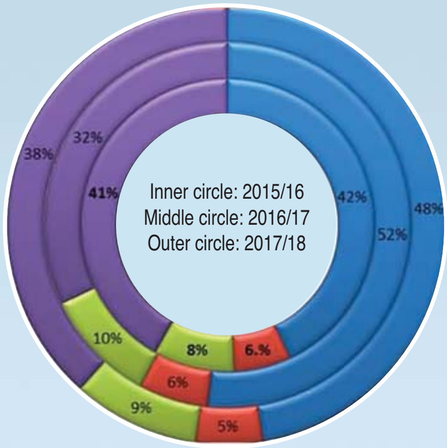
Target



Share of Revenue collected by Tax Type



Percentage contribution to National Budget



Tax revenue
Grants
Other revenue
SACU

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List of abbreviations

ASYCUDA	Automated System For Customs Data
BEDCO	Basotho Enterprise Development Corporation
CBL	Central Bank of Lesotho
CG	Commissioner General
CIT	Company Income Tax
CRP	Common Revenue Pool
EXCO	Executive Committee
FBT	Fringe Benefit Tax
GDP	Gross Domestic Product
GOL	The Government of Lesotho
HOBA	Head of Border Agencies
IIT	Individual Income Tax
IMF	International Monetary Fund
IT	Income Tax
LCCI	Lesotho Chamber of Commerce and Industry
LCCT	Lesotho Coordinating Committee on Trade
LIA	Lesotho Institute of Accountants
LMPS	Lesotho Mounted Police Service
LRA	Lesotho Revenue Authority
LERASU	Lesotho Revenue Authority Staff Union
MOU	Memorandum of Understanding
NSDP	National Strategic Development Plan
NTFC	National Trade Facilitations Committee
OGA	Other Government Agencies
PAYE	Pay As You Earn
PIT	Personal Income Tax
TRF	Trade Related Funding
SACU	Southern African Customs Union
SADC	Southern African Development Community
TRS	Time Release Study
VAT	Value Added Tax
VRA	Value Added Tax Refunds Administrator
WCO	World Customs Organisation
WTO TFA	World Trade Organisation's Trade Facilitation Agreement
WHT	Withholding Tax

Mission/Vision

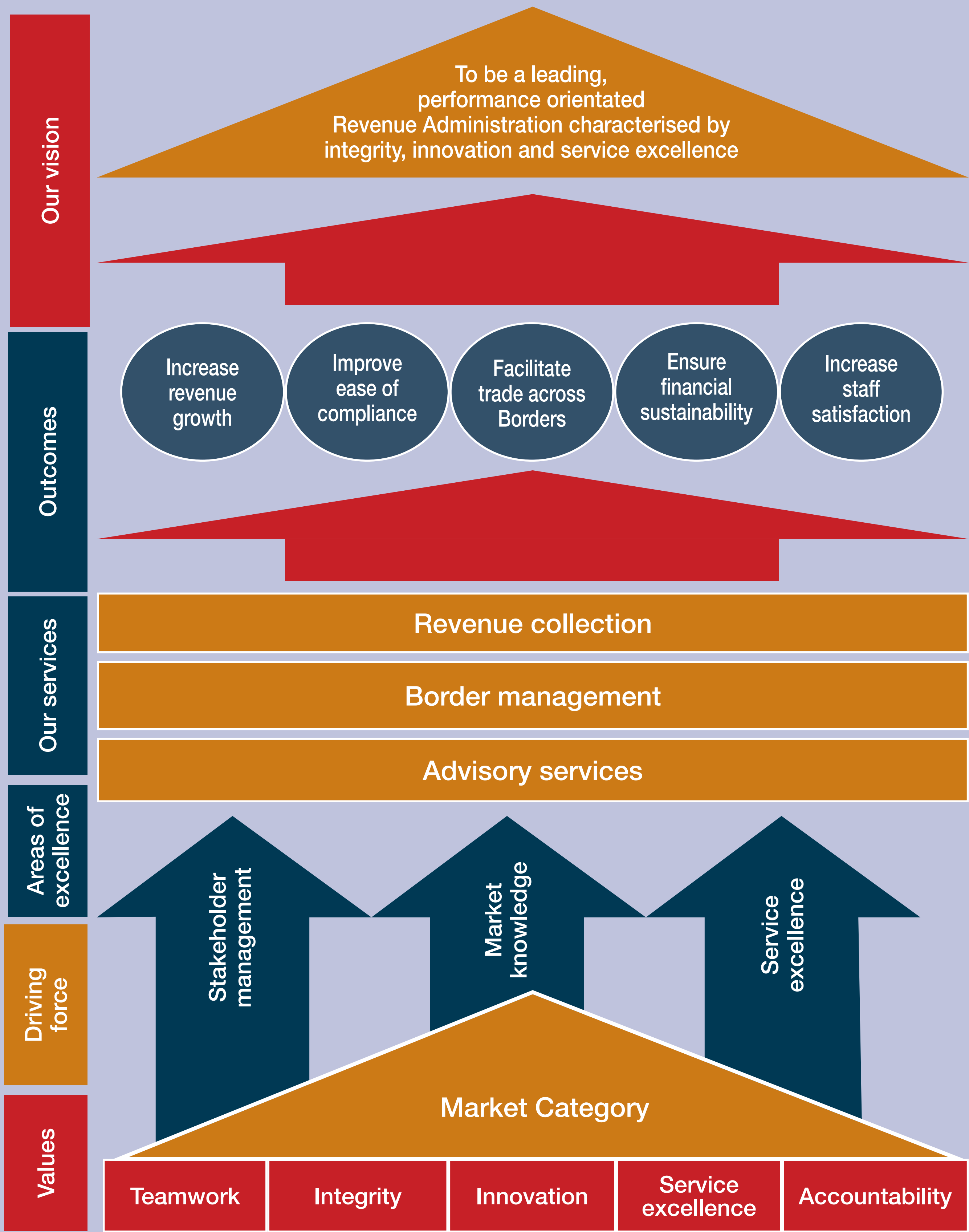
We provide revenue collection, border management and advisory services through:

- A capable and motivated workforce;
- Understanding and responding to the needs of our market;
- Building strong and sustainable relationships with stakeholders;
- Fast, efficient and cost effective programs;

In order to influence voluntary compliance.

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

A Strategy 2014-2019



What we do

As the Lesotho Revenue Authority, we have been mandated by Law to assess, collect and receive revenue for the Government of Lesotho, operating under the general supervision of the Minister of Finance.

As per the LRA Act No. 14 of 2001, our mandate is to:

Administer and enforce the following revenue laws:

- Customs and Excise Act 1982
- Income Tax Act 1993
- Sales Tax Act 1995
- Value Added Tax 2001

Assist our clients to comply voluntarily with tax laws;

Take the necessary measures to improve the standards of service given to clients to improve efficiency, effectiveness and maximize revenue collection;

Do all possible to counteract tax fraud and other forms of fiscal evasion; and

Advise the Minister on matters of revenue policy, administration and collection of revenue under the tax laws.

Statement by the Honourable Minister of Finance

At the close of the 2017-18 Financial Year (FY), the world faced moderating international trade and tightening global financing conditions, but nonetheless maintained a steady growth in both 2017 and 2018. 2018 was considered to be the first year, since the financial crisis, that the global economy would be operating at or near full capacity. This made it necessary for policymakers to look beyond monetary and fiscal policy tools to stimulate short-term growth and consider initiatives more likely to boost long-term potential: initiatives like investment in human and physical capital which increase countries' productivity, boost workforce participation, and move closer to the goals of ending extreme poverty and boosting shares prosperity.

Seven largest emerging markets (China, India, Brazil, Mexico, Russia, Indonesia and Turkey) accounted for almost all the increase in global consumption of metals and two thirds of the increase in energy consumption during this time. Global commodity prices strengthened in the first quarter of 2018 and were expected to be higher on average in 2018 than in 2017. Broad-based price increases were supported by both demand and supply factors, including restraint by major oil producers, trade tensions, and economic sanctions.

Moreover, this period proved to be a challenging one for geopolitics in different areas of the world. America's foreign policy changed following new administration, giving leeway to China and Russia to assume the mantle. The shifts continued to pose challenges to global politics and international affairs through 2018. These coupled with persisting North Korean threats, terrorism, the Iran-Russia-Syria alliance, Saudi Arabia's ambitious goals and climate change were some of the most important issues that the world faced in this period under review.

All these global developments take place at a time when Lesotho is considered to have grown faster than its regional peers over the last decade, partly driven by capital intensive mining and infrastructure projects. High levels of unemployment, poverty, and inequality however still persist. There was therefore a need for new engines of growth, a more streamlined role for the state, and a dynamic private sector to help Lesotho seize opportunities in regional and global markets.

As I reflect on the 2017-18 FY therefore, I see a year which marked the need for a radical change in the Authority, bringing hope for a better tax administration. This was indeed the year of new beginnings, the year in which a shift in focus was initiated. It was a year in which a new Board of Directors for LRA was appointed and the Commissioner General reinstated. A new strategic plan was also developed introducing advanced working model and processes. I applaud the LRA staff for their contribution in the year's performance, acknowledging that it may have not been a smooth year. I however have confidence in the new leadership and believe that through their collaborative approach to work, the LRA performance will take a positive turn for the betterment of Lesotho and all Basotho.

Dr. Moeketsi Majoro (MP)
Minister of Finance

Statement by the Board Chair

The 2017/18 financial year marked the end of tenure of the 5th LRA Board of Directors which came into office in 2014. Therefore, this is my first statement as the Chairman of the 6th LRA Board which was announced on 2nd November 2017 by the Honourable Minister of Finance, Dr. Moeketsi Majoro.

As the new Board, we come into office when the LRA is facing a number of challenges. This is the year when LRA has recorded another shortfall in revenue collection, making a historical record of missing the target for two consecutive years.

As mandated by the Honourable Minister, our first task is to work together with management and the rest of the staff to address all existing concerns and to instil unity among all employees. We are also tasked with restoring the Authority's reputation of service excellence and integrity. As the Honourable Minister puts it, we have to "Bring back the glory days of LRA". In this reporting period, the Authority collected and remitted M5.989 million to government coffers. Compared to the previous year, this is a zero percent growth, as a result the target was missed by M607 million (9.2 percent).

As the new Board, we joined the Authority at the time of great challenges such as declining revenue performance; high cost of collection; a depreciating brand equity as well as a deterioration in staff morale. Therefore, we saw our greatest challenge as getting Management to come up with a turnaround strategy. To that end, we first prioritised the normalisation of the leadership of the organisation by reinstating the Commissioner General.

With that achieved, we directed the management to define a new strategic direction by developing a new strategy for the next five years. Consequently, as at the end of the period under review, the Board approved a new "Rea Aha – We are Building" Strategy which replaced the "Chebelo Pele" Strategy that still had a year to run. With this new strategy, which emphasises a strategic shift to a more service oriented approach to doing our business, I am confident that we are transforming the Authority for the benefit of the nation at large. I invite all our stakeholders to hold hands with us as we undertake this important task.

In conclusion, I wish to thank my fellow Board Members for the hard work they continue to put in to guide the Commissioner General and his Executive Team to come up with the new strategy which, notably was developed by the LRA Staff without the assistance of any external consultant.

I gratefully acknowledge the work of the Management Team and Staff of the Authority. A special vote of thanks in this regard is also extended to the Honourable Minister of Finance Dr. Moeketsi Majoro for the support and guidance. Lastly, I thank our clients for honouring their commitment of always paying their taxes due, and on time.

Mr. Robert Likhang
Chairman of the Board

Statement by the Commissioner General

The 2017-18 FY was the most challenging one for the LRA. This is the time when the Authority has missed a target in two consecutive years (430 million and 607 million in 2016-17 and 2017-18 respectively). This translates to a deficit of 6.2 percent in 2016-17 FY followed by negative 9.2 percent in 2017-18 FY which amounts to M1,037 million in monetary terms.

In order to identify and define the core challenges that we are facing as an organisation, we undertook a diagnosis which was informed by the information gathered from various stakeholder engagement sessions. Our diagnosis has revealed that there is a poor leadership culture characterised by autocratic leadership and a heavy enforcement culture.

This has resulted in the following symptoms;

- Low staff morale
- Ineffective processes and systems
- Inadequate funds
- Inadequate organisational structure
- Inadequate performance management system
- Poor service delivery

It is in light of this diagnosis that we undertook to develop a new LRA 2018 - 2023 Strategy "Rea aha", whose implementation will begin in the new financial year 2018.

I therefore wish to conclude by indicating that, although revenue collection remains a challenge, as an organisation we ended the year well with improvements made in getting to understand our clients or the taxpayers better. We identified strategies that position us better to serve. We are also enhancing our ability to grow and learn as an organisation. It is our belief that with this 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 grow. We remain humbled and grateful for all the support, assistance and guidance that we have received from all our Partners during this financial year.

Mr. Thabo David Khasipe
Commisioner General

Our Board provides strategic oversight and governance

The Authority is governed by a Board comprised of representatives from the public, parastatals and private sectors. The Board is appointed by the Minister of Finance in accordance with the LRA Act No. 14 of 2001, and sits on a monthly basis.

Our Board from left to right :

Back row: Mr. Chabeli Ramolise, Mr. Thabo David Khasipe, Mrs. Libako Leisanyane, Mr. Robert Likhang, Mr. Lefu Mokaoane, Mr. Bohlale Phakoe,

Seated: Advocate Lindiwe Sephomolo KC and Mrs. Tšireletso Mojela,

Committees of the Board

In order to help it to effectively carry out its mandate, it has three committees which sit on a quarterly basis. The role of the Committees have been summarised below.

Finance and Audit Committee (FAC)

The committee provides oversight on the financial management of the Authority including ensuring the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
The committee is also responsible for risk management and oversight of the internal audit function.

Human Resource and Remuneration Committee (HRRC)

The committee assists the Board with oversight on human resources management, recruitment processes for executive management, including the Commissioner General, Remuneration matters and general staff welfare matters.

Information and Communication Technology Committee (ICTC)

The committee is responsible for providing advice to the Board with regard to monitoring the adequacy, efficiency and effectiveness of the LRA's ICT policies and investments, in as much as these may impact the strategy, financial performance and risk profile of the LRA.
The committee is also responsible for ensuring the alignment of ICT investments with the overall LRA strategy.

Mr. Lefu Mokaoane

Advocate Lindiwe Sephomolo KC

Mr. Bohlale Phakoe

Mr. Lefu Mokaoane *(Member)*

Mr. Mokaoane was appointed as the LRA Board member from November 2017. He is also the Chair of Finance and Audit Committee for LRA Sub-committee to the Board. He is also serving on the board of Lesotho Institute of Accountants, and also chairs the Audit and Risk Committee of the Institute.

Mr. Mokaoane has an extensive experience in Finance, having worked in that field for the past 19 years, and being a Chartered Accountant. He is currently working as the Chief Finance Officer for Lesotho Highlands Development Authority.

He previously worked in WASA (currently WASCO) and Office of the Auditor General.

Advocate Lindiwe Sephomolo KC *(Member)*

Advocate Lindiwe Sephomolo KC is the Chief Executive Officer of the Association of Lesotho Employers and Business. She was appointed as the member of the LRA Board from 2015 during that period she served as the Chairperson of the Human Resource and Remuneration Committee. She is currently serving on two Board committees namely; Information and Communications Technology Committee (ICTC) and Human Resource and Remuneration Committee (HRRC).

She is an advocate of the Courts of Lesotho, a specialist in Labour Law, a seasoned negotiator and policy specialist with over 23 years post legal qualification. She has received national recognition and has been appointed King's Counsel.

She is passionate about business development and trade. Her postgraduate studies include courses in the area of Labour Law, trade and policy, lobbying and advocacy, corporate governance.

Previously Adv. Sephomolo worked as the first Chief Executive Officer of the Private Sector Foundation and has also been advisor to the Ministry of Trade and Industry where she was responsible to the establishment of the One Stop Business Facilitation Centre.

She is an active spokesperson of the Employers nationally, regionally and internationally.

Mr. Bohlale Phakoe *(Member)*

Mr. Phakoe was appointed as the member of the LRA Board from November 2017 which is his second time after serving part term in the 4th Board.

Mr. Phakoe has extensive experience in Financial Markets and risk Management and is currently working as a Director of Financial Markets at the Central Bank of Lesotho.

Within the Board, Mr. Phakoe is also serving in the Human Resource and Remuneration Committee as the Chairperson as well as in the Finance and Audit Committee.

Mrs. Tšireletso Mojela *(Member)*

Mrs. Mojela was appointed as the member of the LRA Board from 2015, during that period she served as a committee member of both the FAC and HRRC. She is serving her second term as a Board Member of the LRA.

Mrs. Mojela was also a chairperson of the BEDCO Board of Directors.

She has extensive experience in Trade and Industrial Development issues, and has previously worked as a business counsellor at Lesotho Manufacturers Association. Shi is currently working as the Director of Industry within the Ministry of Trade and Industry.

Mr. Chabeli Ramolise *(Member)*

Mr. Ramolise was appointed as the member of the LRA Board from November 2017, within which he is the Chairman of the Information and Communications Technology Committee (ICTC) as well as a member in the Finance and Audit Committee.

He is also serving in the Board of WASCO as the Chairman, and in the Board of Tloutle Holdings as the Deputy Chairman.

Mr Ramolise is an economist and accountant by training, an experienced financial markets expert, a risk practitioner, a banker and business development expert. He is an economist of the Lesotho Chamber of Commerce & Industry.

Mrs. Libako Leisanyane *(Member)*

Mrs. Leisanyane was appointed as the Deputy Chair of the LRA Board from November, 2017.

She is also serving on the Board of the Lesotho Petroleum Fund. She previously served in the Council of Lerotholi Polytechnic where she was also a Chair of the Audit and Risk Committee.

Mrs. Leisanyane has extensive experience in Economics, Statistics and Corporate Governance. She is currently working as Acting Director, Department of Macroeconomic Policy and Management in the Ministry of Finance.

Performance of Revenue and Achievements of other Strategic Outcomes

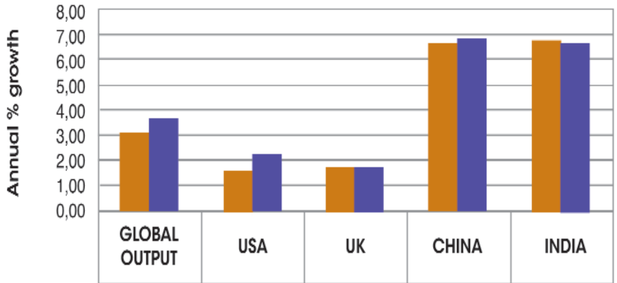
Operating Environment

The Global Economy

Figure 1 shows the global economic performance for two years, and global real output growth increased from 3.1 percent in 2016 to 3.7 percent in 2017. This growth was supported by a recovery in the commodity export markets, coupled with tax cuts and increase in spending in the US, which led to an increase in investment in advanced economies.

Figure 1: Global Economic Performance in 2017

Source 1: World Economic Outlook January 2018

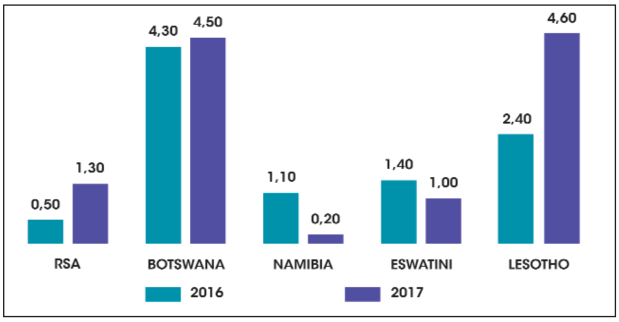


	GLOBAL OUTPUT	USA	UK	CHINA	INDIA
2016	3,10	1,60	1,80	6,70	6,80
2017	3,70	2,30	1,80	6,90	6,70

The SACU Economies

The SACU region experienced an uneven economic growth with Namibia recording the lowest real GDP growth as depicted by Figure 2. The performance is underpinned by easing global economic conditions coupled with a recovery in the commodity prices that have contributed to the economic growth in SACU economies. The region however remains vulnerable to macroeconomic shocks and other vulnerabilities such as extreme weather conditions including drought. The growth in the region has also resulted from demand for traditional and non-traditional exports from Africa which remained modesty robust.

Figure 2: SACU Real GDP Growth Year-on-year

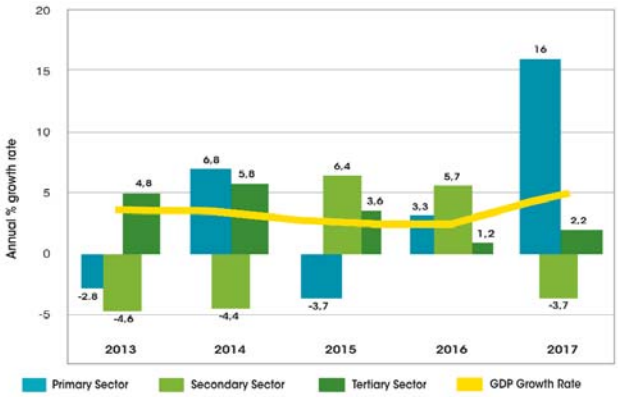


Source: African Economic Outlook 2018

The Lesotho Economy in 2017

Domestically, the economy recorded a 4.6 percent nominal GDP growth rate in 2017 as shown in Figure 3 above. This growth was driven mainly by robust growth in the primary sector accompanied by modest growth in tertiary and secondary sectors. On the other hand the secondary sector contracted by 2 percentage points between 2016 and 2017.

Figure 3: Lesotho Annual Sectoral Economic Growth Rates 2013-2017



Source 3: Central Bank Annual Report 2017

Primary sector performance resulted from a mining sector rebound from -2.4 percent in 2016 to 34.4 percent in 2017.

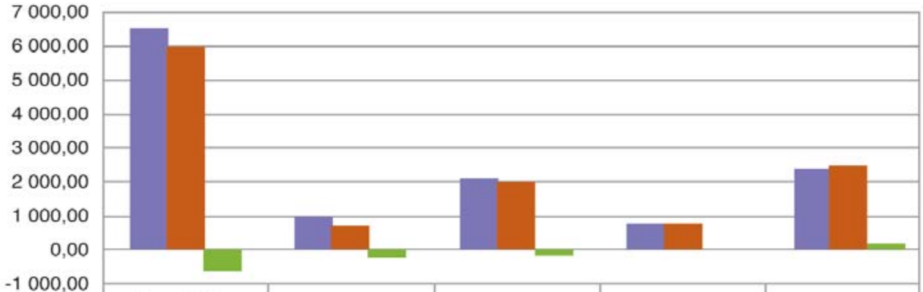
The contraction in the **Secondary sector** stemmed from a 20 percent decline in construction activities coupled with massive slowdown in the manufacturing sector.

The better performance in the **Tertiary sector** is attributed to an improved activity in the transport and communications subsectors and an improved performance in the financial services.

Outcome 1: Increase in Revenue Growth

The Authority managed to collect M5,989 million out of M6,597 Target. Figure 4 further shows that only Value Added Tax (VAT) exceeded targets by M51.34 million.

Figure 4: Overall Revenue Performance 2017/18

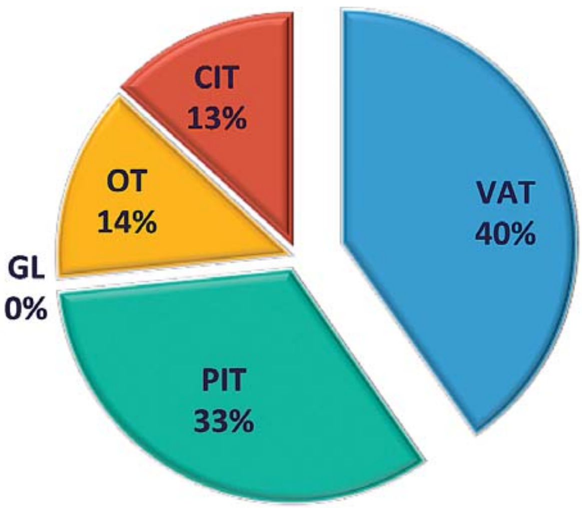


	Overall Tax Revenue	CIT	PIT	OT	VAT
Target	6 597,24	1 019,78	2 129,94	872,89	2 362,67
Remittances	5 989,70	783,81	1 977,04	814,84	2 414,01
Variance	-607,54	-235,97	-152,9	-58,05	51,34

Target Remittances Variance

Source 4: LRA Database

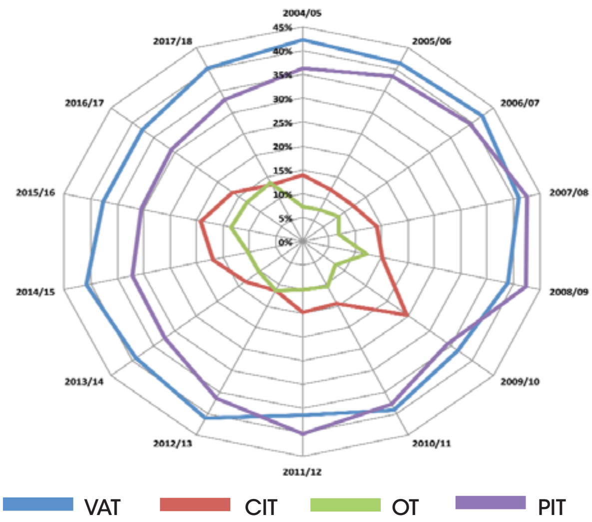
Figure 5: 2017/18 Contributions by Tax Type



Source 5: LRA Database

The realised performance has been supported by strong performance in VAT which in terms of percentage contribution takes the larger share of the pie at 40.0 percent, followed by Personal Income Tax (PIT).

Figure 6: Percentage Contribution by Tax Type Overtime

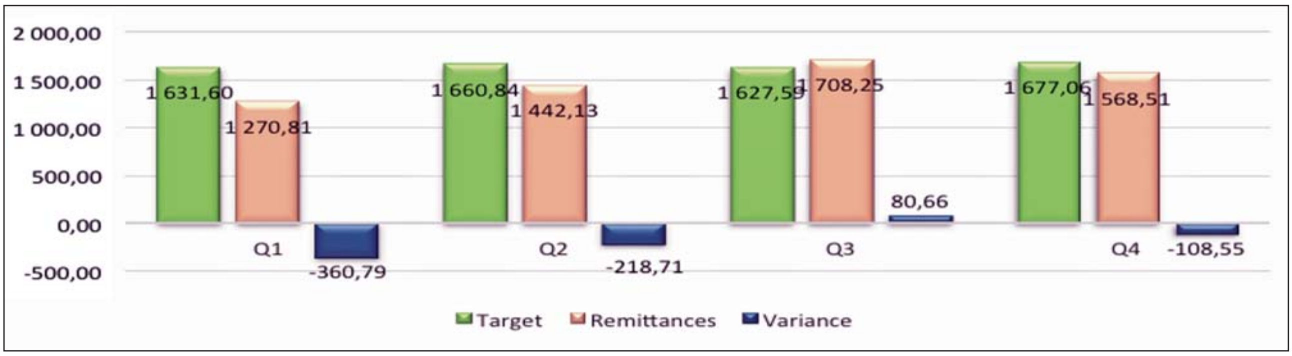


Source 6: LRA Database

Corporate Income Tax (CIT) performed badly as compared with other years with a decrease of 3.0 percentage points from its normal average contribution of 18.0 percent. Furthermore, for the first time in the history Other Taxes (OT), comprising of Withholding Tax, Fringe Benefit Tax and Gambling Levy, collections are above that of CIT, as shown in See Figure 6.

Figure 7 demonstrates that during the period under review, revenue performance improved in Quarter 3 while the quarterly targets were missed for the other three quarters.

Figure 7: Quarterly Revenue Performance (Million Maloti)



Source 7: LRA Database

Value Added Tax (VAT)

VAT remittances grew by 7 percent in 2017-18 FY from 2.0 percent in 2016-17 FY, boosted by an 11.0 percent increase in inland VAT which has amongst other reasons been driven by an improved management of refunds; this led to a decrease in fraudulent refunds. The VAT refunds decreased from M674.83 million in 2016-17 FY to M631.70 million in 2017-18 FY.

Inland VAT Performance

As a result of an increased purchasing power of consumers coupled with better performance of the economy, wholesale and retail trade recorded a growth in output. Growth in this sector consequently resulted into an increase in VAT payments thereby boosting VAT collections.

The Authority's efforts to improve compliance in the wholesale and retail trade sub-sector through dedicated initiatives has also had an impact hence realised performance in VAT collections.

Import VAT Performance

Import VAT receipts declined by 0.4 percent driven by massive rejections in VAT from VAT Refunds Administrator (VRA). The rejection rate was inter alia influenced by observed non-compliance to South African Customs procedures by traders.

Income Tax (IT)

Income Tax remittances missed the annual target of M4.2 billion by M658.73 million recording a 4.2 percent decline compared to a 2.3 percent increase in 2016-17 FY. This performance is attributable to a decline in CIT, which missed the annual target by M444.56 million.

Company Income Tax (CIT) Performance

CIT missed the annual target of M1.23 billion by M444.56 million which is 36.2 percent. The CIT remittances declined by 20.0 percent from 2016-17 FY remittances. The 20 percent contraction in CIT resulted from a decline in CIT contribution from major contributors which are the mining and quarrying, and finance and insurance sub-sectors.

Despite the reported increase in total output in the mining and quarrying sub-sector, revenue collections from this sub-sector massively declined from M164 million in 2016-17 FY. The reason for the CIT underperformance in this sub-sector has been claimed by the major contributors as resulting from reduced revenues and negative impact of the exchange rate hence low taxable income.

In addition, some of the major contributors filed credit returns in the period under review due to overpayments made in 2016-17 FY.

Personal Income Tax (PIT) Performance

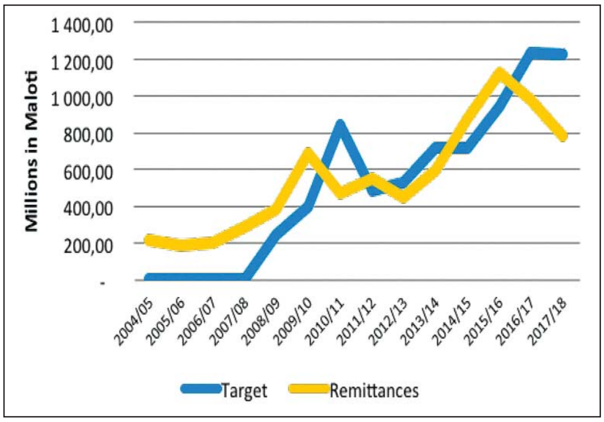
PIT which comprises of Individual Income Tax (IIT) and Pay As You Earn (PAYE) performed below target by M60.46 million (3.0 percent). During the period under review, PIT collections grew at a significantly low growth of 1 percent relative to 13.0 percent in 2016-17 FY and below the 3 percent adjustment on wages and salaries. This is due to a registered 2.3 percent decline in the number of employees in the Public Sector relative to a 1.3 percent decline in 2016-17 FY. PIT remittances have declined despite the 9.8 percent growth in PIT registrants.

Other Taxes (OT)

OT is comprised of Withholding Tax, Fringe Benefit Tax and Gambling Levy. WHT is the largest contributor of OT. Poor performance was recorded in OT due to a decline in the construction sector which negatively affected WHT collections.

CIT and PIT Trends

Figure 8: CIT Performance Trends



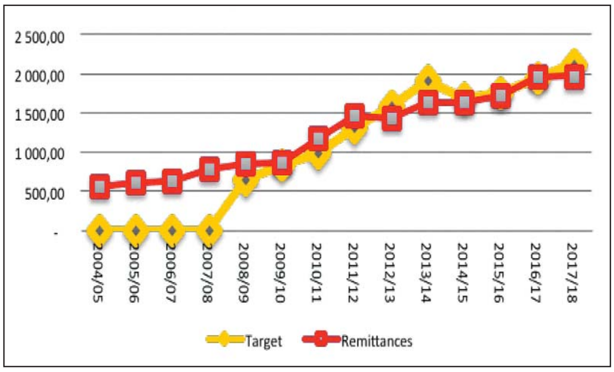
Source 8: LRA Database

2017-18 FY CIT performance was at its lowest since 2011-12 FT which was the worst performing year. CIT is largely supported by the mining subsector hence the observed volatility in the remittances as this sector is cyclical in nature as Figure 8 depicts.

PIT Analysis

The 2017-18 FY National Budget delivered on the 19th July 2017 proposed some policy changes and rates as shown below:

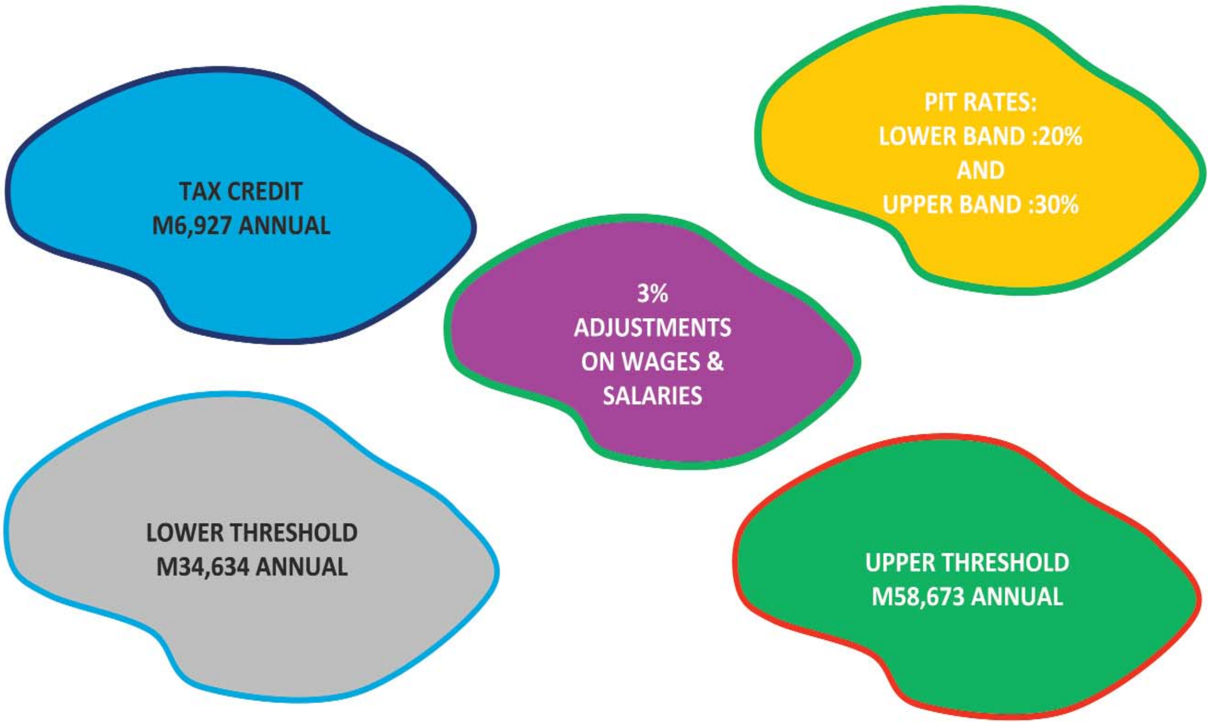
Figure 9: Pit Performance Overtime



Source 9: LRA Database

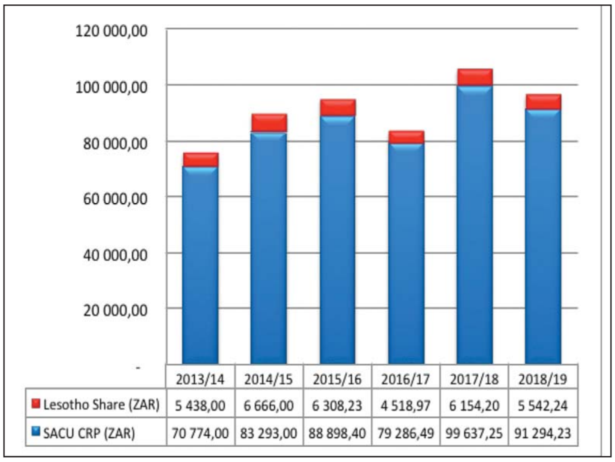
Figure 9 presents PIT annual performance against the target. As the figure, depicts, PIT started missing the target from 2010-11 FY to date. PIT has been affected by the downward revision of PAYE rates and the low absorption rate of the Public Administration subsector which is the major employer.

In summary, 2017-18 FY revenue performance recorded no growth thus resulting in the lowest year-on-year since the inception of LRA. This is largely due to poor performance of CIT which has since contracted further from -13.0 percent in 2016-17 FY to -20.0 percent in 2017-18 FY.



SACU Revenue

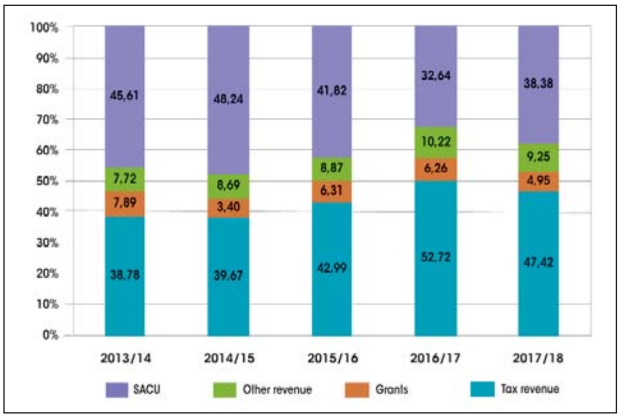
Figure 10: Lesotho Share of the Total SACU Revenue



Source 10: LRA Database

Figure 10 shows the share of Lesotho from the Common Revenue Pool (CRP). The Lesotho share of the SACU revenue has been constant at an average of 7.6 percent while the growth rate pattern (shown in the Figure 11) depicts the cyclical nature of the CRP which creates shocks in the public financial management system.

Figure 12: Government Budget Disaggregated by Revenue Streams

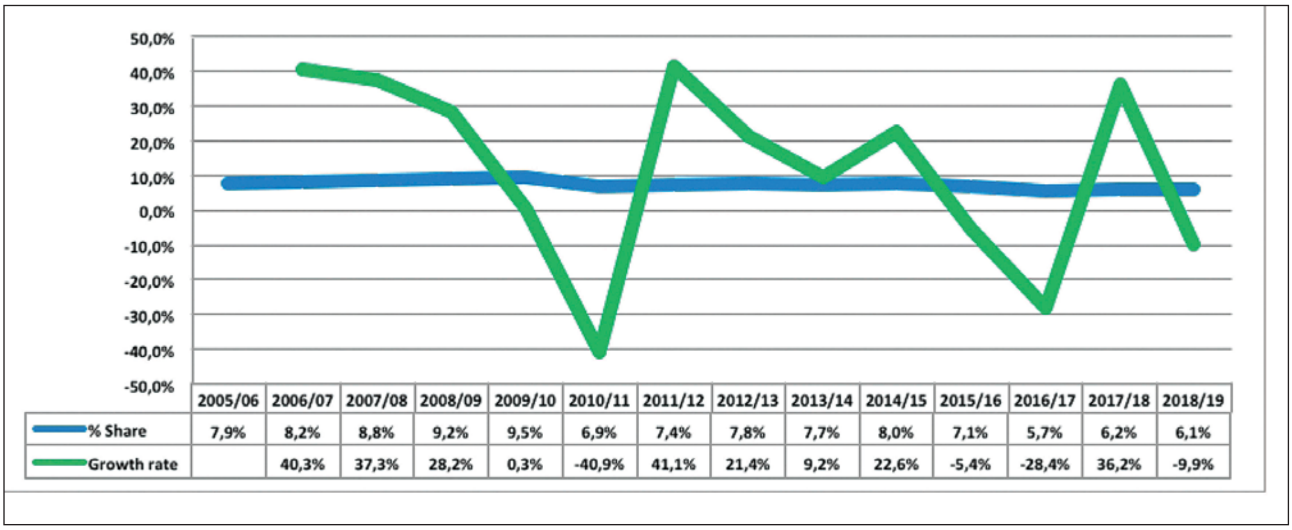


Source 12: Ministry of Finance Database

In terms of contribution to the national budget, tax revenue supports the national budget by an average of 44.0 percent followed by SACU receipts at 41.0 percent.

As depicted in Figure 12, the government budget is financed through four sources, domestic tax revenue, grants, other revenue and SACU receipts.

Figure 11: SACU-Lesotho Share and Growth Rate (%)



Source 11: LRA Database

In summary, it is demonstrated in Figure 11 that Lesotho revenue share from the SACU common revenue pool is steadily declining which therefore warrants an extensive mobilisation of domestic revenues.

Toll Fees

In addition to the tax revenues that the Authority is collecting on behalf of the Government, there is also collection of non-tax revenue in the form of Border toll fees that the Authority also collects on behalf of Road Fund at an agreed commission. For the year under review, the total toll fees collected amounted to M50 million at a year on year growth rate of 0.8 percent, slightly lower than the 2016-17 FY growth of 1.9 percent registered between 2015-16 FY and 2016-17 FY.

The Customs Officer verifies the declaration documents at the Maputsoe Bridge Border Post.

Outcome 2:
Improve Ease of Compliance

Simplified Business Tax regime (SBT)

In the last quarter of the financial year 2017-18, we introduced a simplified business tax regime. The objective of this regime was to introduce a flat rate for small and medium businesses. During the launch, it was announced that the Authority was embarking on the introduction of a Simplified Businesses Tax (SBT) regime for small and medium enterprises.

The initiative complements existing regime for the large clients, already under implementation. This form of taxation is intended to relief businesses from complex, onerous and costly tax requirements which regrettably promote non-compliance.

Under the SBT, clients will pay a predetermined fixed amount on agreed easy payment terms. In this regard, we are already in consultations with the transport and retail sectors and the intention is to introduce SBT before end of March 2018. These negotiations and stakeholder consultations have benefited from support of the Commissioner General.

Point-of-sale system introduced at the border gates

We introduced a new method to facilitate the payment at the borders, through a Point-of-sale system. The facility enables taxpayers to use their card and swipe to pay their tax due at the port of entry. As a result of this we received a cheque from the Standard Lesotho Bank in the Swipe and Win Competition in August 2017. The prize was a result of an outstanding performance where we exceeded a set target for swipes processed at the Maseru Bridge Border Post. This method of payment has become one of the most preferred methods by our clients.

Introduction of Voluntary Disclosure Programme (VDP)

The Hounorable Minister of Finance Dr. Moeketsi Majoro officially launching the Voluntary Disclosure Program

The Voluntary Disclosure Programme (VDP) was launched in February 2018. The programme is aimed at facilitating voluntary compliance by extending an olive branch to those whose tax affairs are not in order and to encourage them to come forward to regularize them. The VDP also presents an opportunity to expand the tax net. It is only when all clients have paid their fair share of taxes that there would be a fiscal space needed to consider reducing the tax rates for those that were already complying.

During the launch, the Honourable Minister of Finance Dr. Moeketsi Majoro encouraged all LRA clients to take full advantage of the programme to regularise their tax affairs.

The VDP is an opportunity for businesses and individuals to come forward voluntarily to regularise their tax affairs under Income Tax and VAT Laws and receive amnesty on additional taxes and penalties

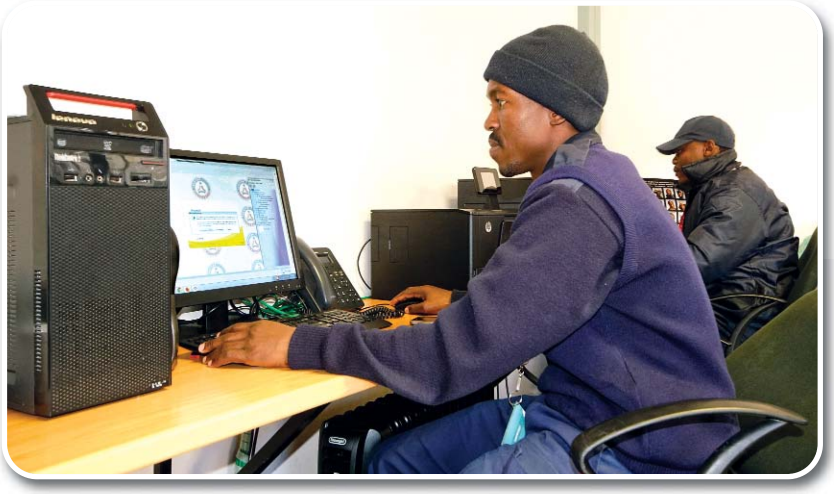
Benefits:

- Amnesty on additional taxes and penalties
- Non-pursuance of prosecution
- Opportunity to regularise tax affairs and have good standing with the LRA
- Redemption from tax irregularities and other tax transgressions

Take Responsibility for a Fresh Start

Outcome 3: Facilitate Trade across Borders

WE ARE IMPROVING MOVEMENT OF GOODS ACROSS THE BORDER



We strive to make it easy for goods to move in and out of the country through principles of simplification, harmonization, transparency and standardization. In this year, we pursued the following objectives; reduction of time taken to clear goods for imports and export, enhancement of predictability and transparency of Customs processes. Resulting highlights of trade facilitation reforms for the year were the development of a National Trade Facilitations Committee, Regulatory Single Window Process and Time Release Study+, as required by the World Trade Organisation's Trade Facilitation Agreement (WTO TFA).
We have therefore made significant progress in the implementation of the WTO TFA.

National Trade Facilitation Committee (NTFC), was established in October 2017, as is required by Section III, Article 23 of the WTO TFA. We assume a deputy chairmanship role in this Committee.

Structure of National Trade Faciliation

Lesotho Coordinating Committee on Trade

- A ministerial committee;
- Approval and decision making body;
- Consists of government ministries and agencies regulating trade;
- LRA is a member of the committee.

National Trade Facilitation Committee

- Administration committee;
- Coordinates implementation of the WTO TFA;
- Reports to LCCT;
- LRA plays a deputy chairmanship role.

Head of Border Agencies

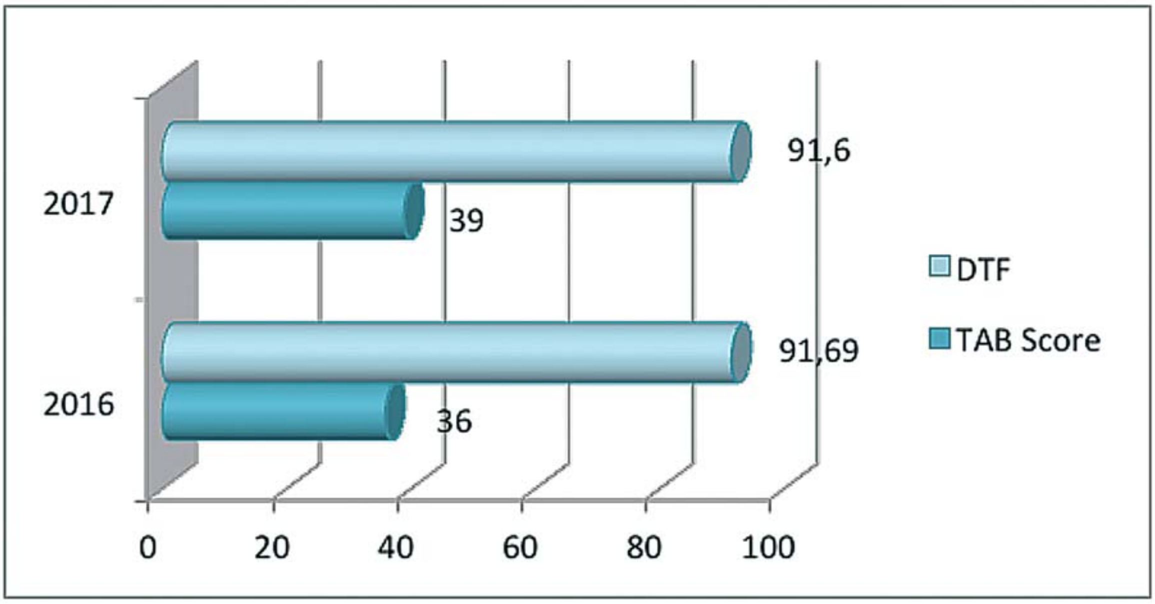
- A technical working group;
- Consist of all border agencies;
- Other technical working groups are adhoc and developed when need arises;
- Chaired by LRA.

The NTFC reports to Lesotho Coordinating Committee on Trade (LCCT), a Ministerial committee which serves as an advisory body to the Government of Lesotho on trade and trade related policies. It functions as a key facilitator for negotiations as well as implementation of trade agreements. In this way, performance measures have been looked into at two levels being, nation-wide trade facilitation level and the internal LRA level. The latter is done through consideration of focus of control.

Contributions of affiliates like Head of Border Agencies (HOBA), a technical working group under the NTFC which we are party to, were therefore very instrumental in driving national trade facilitation issues.

Through our work with HOBA, we successfully secured funding under the SADC Trade Related Funding (TRF), which will support the implementation of a coordinated border management strategy. We further worked on establishing a Regulatory Single Window and on Preferred Trader Programme.

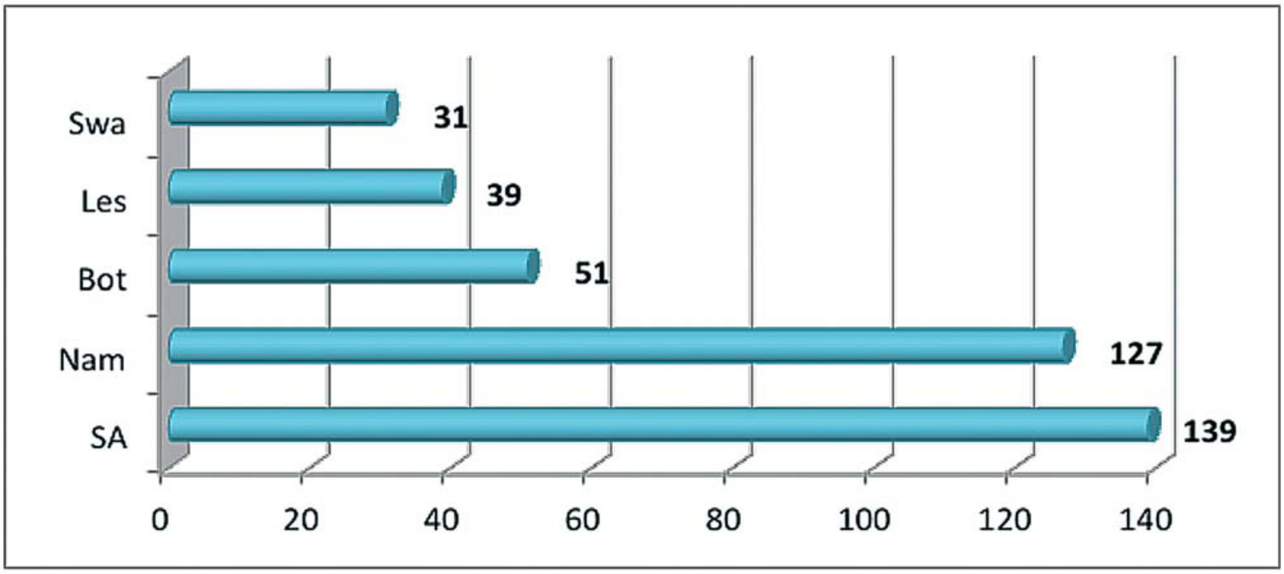
Figure 13: Year-on-year Performance on Trading Across Borders



Source 13: World Bank Doing Business 2017

While there has been so much activity taking place in order to enhance the facilitative role of the Authority across the border, this has not been felt in internationally monitored indicators. The World Bank Doing Business (WBDB) Report ranked Lesotho 39 out of 190 countries under the trading across borders indicator *(see Figure 13)*. This was a slight difference from the 2016 ranking of 36. This shows that no growth in reforms was witnessed under trading across borders in 2017. This is further confirmed by the distance to frontier score of 91.6 in 2017, compared to that of 91.7. Lesotho's ranking on this indicator still remains one of the highest scores, as it is close to the frontier (100).

Figure 14: SACU Members Rating on Trading Across Borders



Source 14: World Bank Doing Business 2017

A comparison of trade facilitation ranking within the SACU region shows Lesotho as the second best performer in facilitating for trade. The best appears to be the Kingdom of Eswatini with the score of 31, followed by Lesotho at 39, and last South Africa with a score of 139.

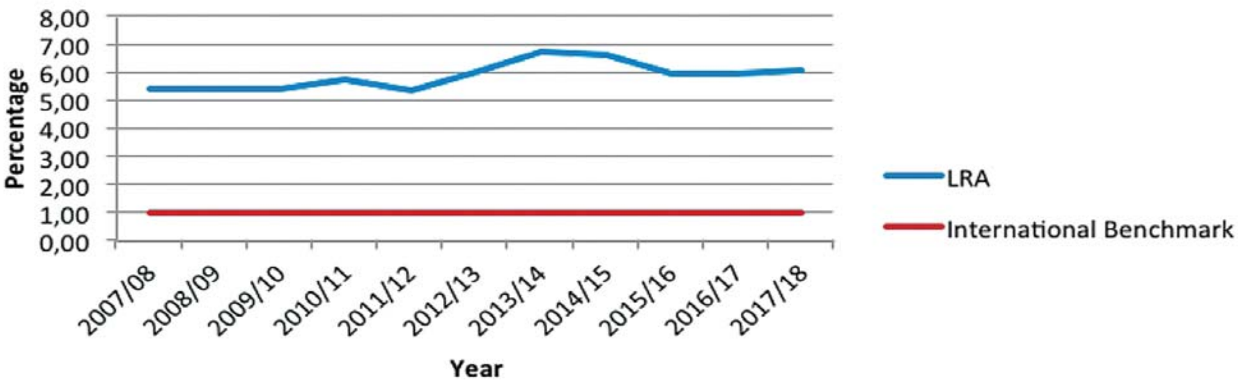
Caledonspoort Borderpost

Outcome 4: Ensure Financial Sustainability

We use tax-to-GDP and cost of collection to measure our efficiency in collecting taxes

Cost of Collection

Figure 15: Cost of Collection Overtime

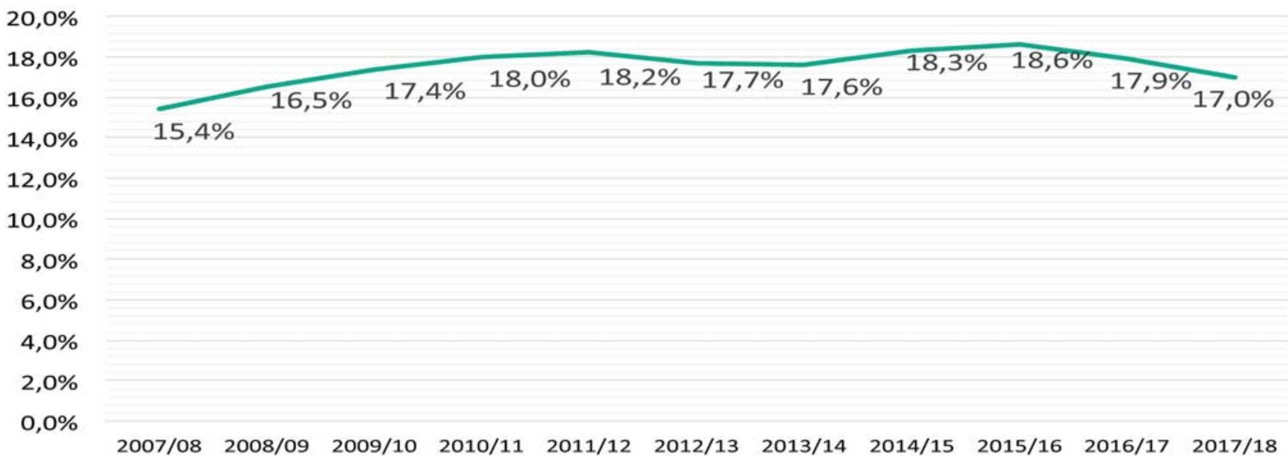


Source 15: LRA Database

Throughout our operations in this year, we have incurred 6 Lisente to collect 1 Loti of tax revenue. This we gauge against the international benchmark of 1 Lisente for collection of 1 Loti. The implication is that, it has been costly for us to collect revenue. Compared to 2016-17 FY, the cost of collection has increased from 6.0 percent to 6.1 percent in 2017-18 FY which is roughly 1 Lisente more.

The increase is attributable to a 6.7 percent increase in operational cost while revenue remitted remained constant at 0.03 percent. The growth in operating costs has been mainly driven by inspection and enforcement expenses followed by vehicle running expenses which have grown at 118.9 percent and 42.8 percent respectively.

Tax to GDP Ratio



Source 16: LRA Database

Tax to GDP decreased from 17.9 percent to 17.0 percent in 2017-18 FY. Tax revenue as a percentage of GDP (tax-to-GDP ratio) was17.0 percent. The figure fell by 0.8 percentage points from 17.9 percent recorded in 2016-17 FY. This is the lowest ratio recorded since 2009-10 FY (17.4 percent).

Outcome 5: Increase Staff Satisfaction

Development of staff capacity

We have invested in programmes that provide a mix of skills, knowledge, experience and attitudes that we need within our ten divisions to help us work in more customer centric, intelligent and agile ways.

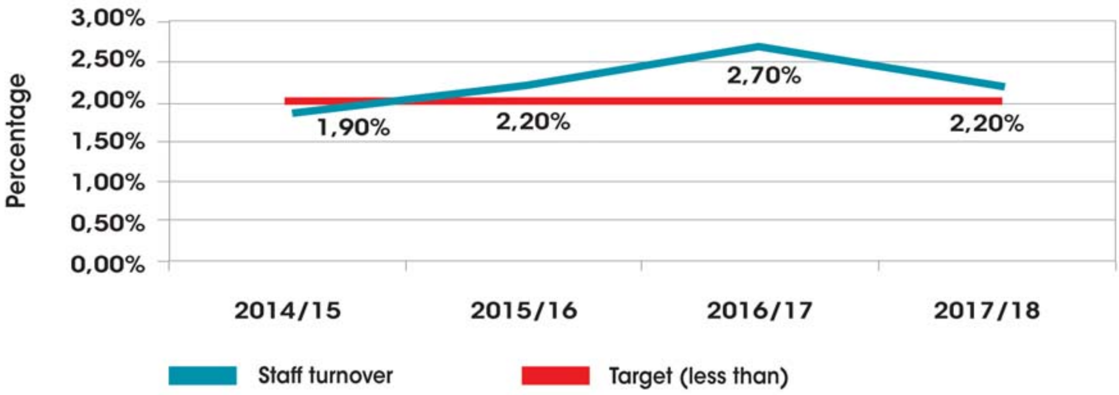
Over 70.0 percent of training programmes were held in-house with training provided mostly by our capable staff. The training covered Basic Income Tax; Basic Customs Training; Intelligence and Investigations, Customs Administrations, Communications Skills and Union Management. Only 48.0 percent of the training plan was implemented during this period, due to the need to redeploy staff to focus on revenue collection initiatives.

The LRA employ different ways to engage employees to enhance communication and service delivery.

Staff turn-over

The LRA structure has 766 approved posts. Due to the imminent need for restructuring there was a general freezing of positions. Thus, at the beginning of the year, the staff complement was 690. During the period under review, there were 18 resignations, thus decreasing our staff complement to 672. The most commonly cited reasons for resignation were lack of growth opportunities as well as lack of direction within the LRA. Currently, our staff turn-over is at 2.2 percent. Figure 16 shows the trend in staff turn-over that occurred during the period under review.

Figure 16 Staff Turnover Against Target



Source 16: LRA Database

In 2014-15 FY, the staff turn-over was at 1.9 percent, which was just below the set target of 2 percent per annum. This increased steadily reaching a peak of 2.7 percent in 2016-17, then, declined to 2.2 percent in 2017-18 FY. Increase in staff turn-over was attributed to a high demand for IT professional in the market as well as uncompetitive remuneration offered by LRA that had stagnated over the years - based on staff exit interviews.

Staff meeting performance targets

Table 1: Percentage of Staff Meeting Performance Targets

	2014 - 15	**2015 - 16**	**2016 - 17**	**2017 - 18**
% of staff that met	92.2%	93.5%	99.8%	80%

Source 17: LRA Database

In 2014-15 FY, the percentage of staff who met their performance was at 92.2 percent. This rose slightly the following year and reached a peak of 99.8 percent in 2016-17 FY. In 2017-18 FY, performance was at 80.0 percent, which was the lowest recorded rate in the last four years. This correlates with the results attained from the 2017 Staff Satisfaction Survey, which reported low staff morale.

Corporate Social Investment

In our commitment to the socio-economic development of Lesotho, we introduced a Corporate Social Investment (CSI) programme aligned with national priorities in partnership with other institutions. The intention of the programme is to give back to the community.

In this year, we supported Bacha Entrepreneurship Project. This project intends to breed a crop of entrepreneurs who can inspire change and prosperity by becoming job creators instead of job seekers.

Currently, in its third Phase, the project sponsored by LRA, BEDCO and Standard Lesotho Bank continued to the second leg of the 2017 edition with a two weeks training for top twenty five (25) applicants.

The training followed the call for proposals that was issued in May 2017 targeting unemployed graduate youth, between the ages of 21 to 35 years. The training focused on equipping participants with a wide range of entrepreneurial skills. Winners shared the prize money to kick-start their entrepreneurship projects.

The 2017 Beneficiaries of Bacha Entrepreneurship Project.

Projects implemented

Implementation of critical issues

The Revenue Authority continued to work on its projects as approved in the 2017/18 financial year. Below are the projects implemented during 2017-18 financial year.

MAYIBUYE |

Increase revenue collections through enforced compliance and deterrence on tax evasion and fraud.

CUSTOMS AND TAX MODERNISATION |

Modernise LRA's processes and systems

SANI BORDER REFURBISHMENT |

Refurbish Sani Border to facilitate modern border traffic

OSAS REVIEW |

Address structural anomalies brought by OSAS.

Mayibuye

Revenue collection – M35,9 M against target of M355,28 M

LRA Staff Brainstorming Sessions

The objective of this project was to increase revenue collection. During September 2017 to March 2018 business operations in revenue collection were driven in a project led approach which yielded a total collection of M35.9 million against target of M355.28 million by the end of the financial year.

The LRA employees in the Small and Medium Taxpayers Departments hard at work.

Tax and Customs Modernisation

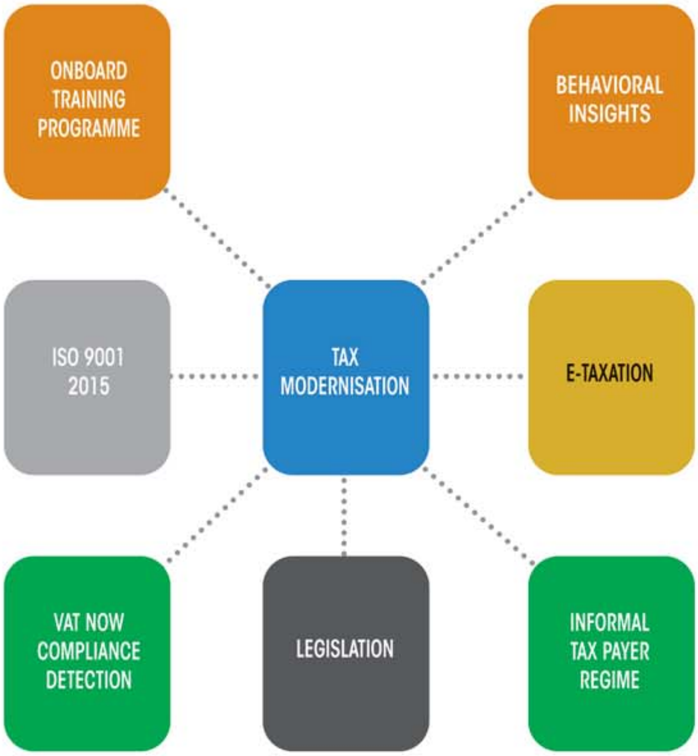
The objective of the Tax Modernisation is to achieve the following:

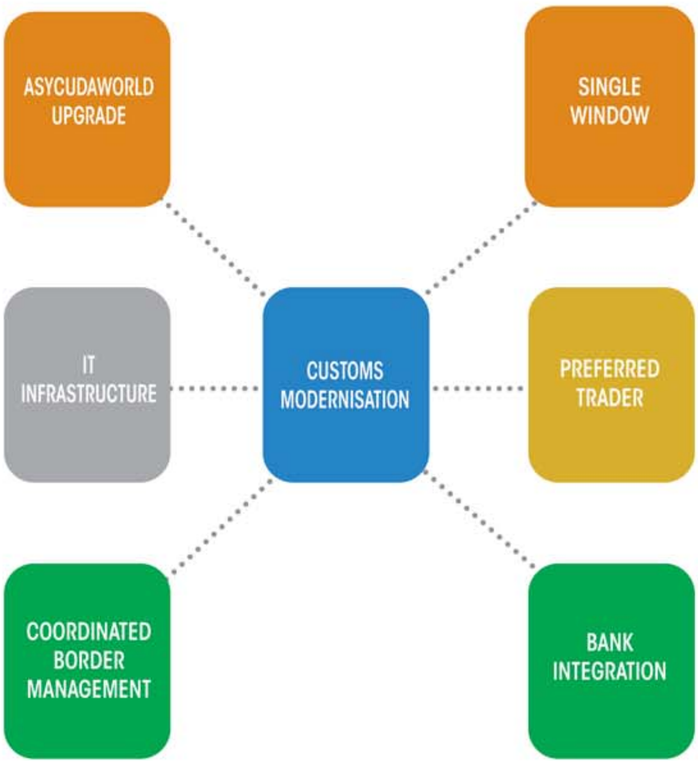
- To introduce all categories on Taxpayers to online services.
- To reduce average time taken to register, file tax returns, pay refunds and issue Tax Clearance Certificate (TCC).
- To reduce average costs related to enquiring about taxes.
- To reduce average costs related to traveling to and from LRA for services.

The Programme aims to improve domestic tax collections. This will be achieved through:

- Introducing user friendly systems, processes and procedures for clients and LRA users.
- Simplified Tax Laws for all Taxpayer segmentations within the economy of Lesotho, comprising of Large, Medium and Small Taxpayers, including the Informal Sector.
- Reduced cost of compliance and cost of collection.

The programme completed the design phase whereby components to be focused on include; E-Taxation, Small Taxpayers and informal Taxpayer Regime.





Sani Border Refurbishment

Proposed Sani Pass Border Post

The current Sani Pass Border Post

Border rehabilitation is a priority for LRA this 2017-18 financial year. The objective is to provide improved border infrastructure that can facilitate easy movement of goods at ports of entry.

Sani Border-Post Refurbishment project started in 2017-18 with drafting of designs and development of contract. It is planned to take two years to be completed. The Ministry of Finance has allocated M10 million to LRA for rehabilitation.

Going forward the plan is to sign the contract with Principal Agent and start to procure the contractor. Construction is expected to be completed in 2019-20.

OSAS Review

The review's aim was to achieve the following objectives:

- To develop a structure that provides right numbers in the right places.
- To profile and grade jobs equitably and in line with operational requirements.
- To achieve alignment of the structure and remuneration that is equitable, sustainable and commensurate with local market.

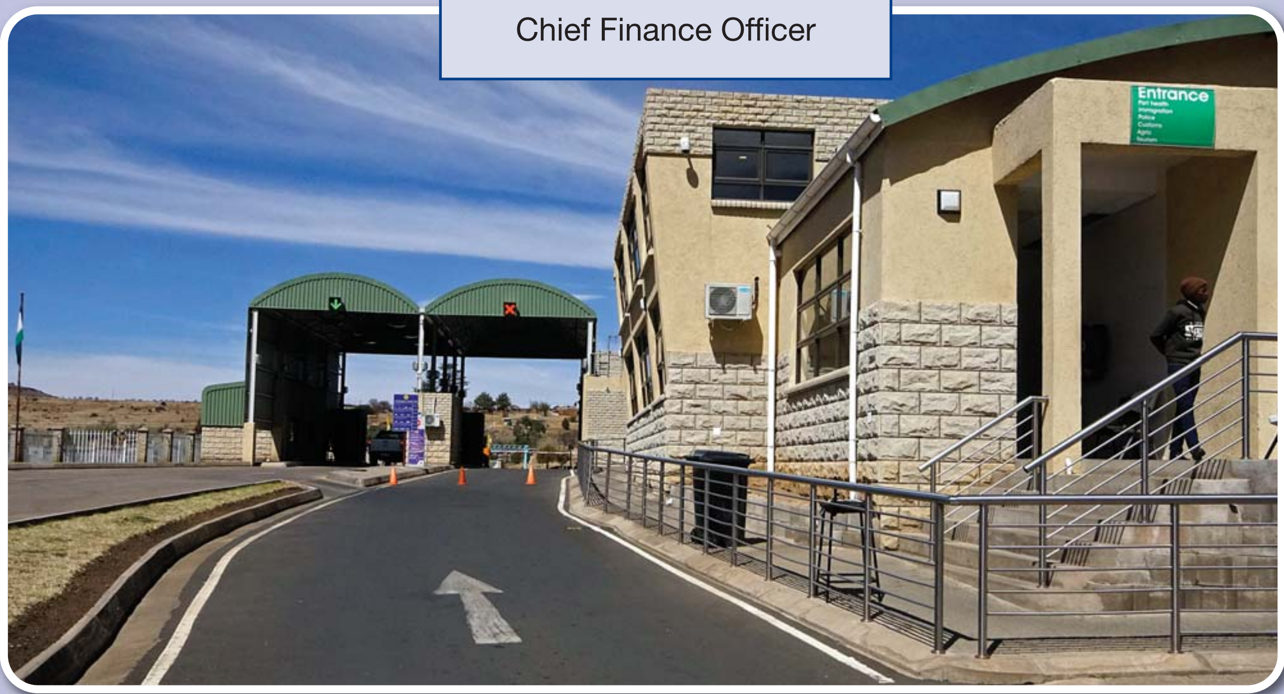
A consultancy firm was contracted to support the project. A situational analysis and evaluation on the current structure were completed which would be an input to the design of the organisational structure. A decision was made to cease the project to await development of the corporate strategy 2018-2023.

Clients paying tax at the LRA Banking Hall.

Organisational Structure

The diagram below shows the high-level organisational structure of the LRA.

- **LRA Board**
  - Commissioner General
    - Commissioner Domestic Taxes
    - Chief Planning and Modernisation Officer
    - Commissioner Customs
    - Chief Human Resources Manager
    - Commissioner Enforcement
    - Chief Assurance Officer
    - Chief Corporate Services Officer
    - Chief Legal and Policy Officer
    - Chief Finance Officer



The Caledonspoort Border Post caters for border services between the northern districts of Lesotho and Fourie'sburg, Bethlehem, Kwazulu Natal and other parts of South Africa

Our executive leadership team leads and guides us

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

The Deputy Prime Minister and Minister of Parlimentary Affairs, Hon. Monyane Moleleki (right) and the Hounorable Minister of Finance Dr. Moeketsi Majoro officially launching the LRA Strategy 2018-23.

LRA EXCO Sub-Committees and responsibilities

- **Strategic Management Committee (SMC)**

  The committee is responsible for advising EXCO with respect to matters concerning the development, implementation and monitoring of the LRA strategy, annual business plans including supporting budgets and manpower plans. The committee is also responsible for providing oversight of the enterprise risk management process.

- **Remuneration Committee**
  The committee is responsible for overseeing the remuneration, bonus and benefits, policies and practices in the Authority.

- **Assurance Committee**
  The committee is responsible for advising EXCO in relation to the effective governance of the Authority. It is also responsible for ensuring the implementation of internal audit recommendations and the alignment of the LRA's policies to strategy.

- **Tender Committee**
  The committee is responsible for making necessary procurement decisions in order to ensure that goods and services procured in the LRA achieve value for money.

- **Revenue Management Committee (RMC)**
  The committee's mandate is to monitor LRA's revenue performance and oversee effective management of Taxpayer compliance.

We organise ourselves by services we provide

We work hand-in-hand across business groups, sharing information with one another and combining our skills and knowledge to improve outcomes for our clients, stakeholders and ourselves.

Corporate Services

Provides facilities, tools and transport for our people, supports and maintains our systems.

Assurance Services

Provides assurance on Governance and control processes to combat corruption and reduce risks.

Finance

Provide efficient and effective financial management services.

Enforcement

Improves taxpayer compliance and provide investigative and intelligence services.

Human Resources Management

Ensures that we have competent people, in the right numbers, with the right skills.

Customs

Provide modern, fast and efficient border management services.

Planning and Modernisation

Strategic management services and business improvements.

Legal and Policy Provides

Corporate legal and advisory services to our organisation.

Domestic Taxes

Enhance voluntary compliance and meet annual revenue targets set by Government.

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Staff serving clients at Maseru Advice Centre

Directors' statement of responsibility and approval

The Board of Directors of the Lesotho Revenue Authority (LRA) is required to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the Board's responsibility to ensure that the financial statements fairly present the state of affairs of the LRA at the end of the financial year and the results of its operations and cash flows for the year then ended, and in conformity with International Financial Reporting Standards (IFRS) and in the manner required by the Lesotho Revenue Authority Act No. 14 of 2001.

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

The Board of Directors acknowledges that it is ultimately responsible for the system of internal controls established by the LRA and places considerable importance on maintaining a strong control environment. To enable it to meet these responsibilities, the Board sets standards for internal controls aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the LRA and all employees are required to maintain the highest ethical standards in ensuring the LRA's business is in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the LRA is on identifying, assessing, managing and monitoring all known forms of risks across the LRA. While operating risk cannot be fully eliminated, the LRA endeavors to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints.

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

The Board has reviewed the LRA's cash flow forecast for the year to 31 March 2018 and is satisfied that the LRA has access to adequate resources to continue in operational existence for the foreseeable future. This is based on the understanding that the Minister of Finance will secure adequate funding for the LRA to meet its operational needs. The external Auditors are responsible for independently reviewing and reporting on the LRA's financial statements.

The financial statements set out on pages 42 to 63 which have been prepared on the going concern basis, and were approved by the Board of Directors on 26 July 2018 and signed on its behalf by:

Robert Likhang

Chairman

Director

Directors' report

1. Nature of business

Lesotho Revenue Authority (LRA) is a semi-autonomous statutory body established by an Act of Parliament in terms of the Lesotho Revenue Authority Act No: 14 of 2001. LRA is charged with the mandate of a) assessing and collecting tax on behalf of the Government, and b) administering and enforcing the revenue laws, which include the Customs and Excise, Income Tax and Value Added Tax. The LRA therefore collects inland taxes, duties and excise on behalf of the Government of Lesotho and transfers the said to the GOL on a weekly basis.

For financial reporting purposes, the financial statements of the LRA are reported as LRA Own Accounts. The LRA Own Accounts cover those operational revenues, such as funding received from Government, which are managed by LRA and utilised in running the organisation. The amounts in the collection accounts which were nit transferred to the GOL accounts as at 31 March 2018 are included as part of cash and cash equivalents and as liability i.e. amounts to be remitted to GOL. The purpose of the distinction is to facilitate, among other things, the assessment of the administrative efficiency of LRA in achieving its mandate.

2. Financial performance

The recurring expenditure for the year amounted to M386 107 718 (2017: M340 150 235). The Authority incurred capital expenditure of M8 069 737 (2017: M65 678 349) on property, plant and equipment. Full details of the financial results are set out on pages 42 to 63.

3. Cashflow for the year

Own Cash and cash equivalents at the end of the financial year were M254 123 628 million (2017: M142 057 118 million). A detailed statement of cash flows is on page 45.

4. Transfer of fixed assets to the Authority by Government

In terms of the Memorandum of Understanding between the Government of Lesotho (Ministry of Finance) and the Lesotho Revenue Authority provided for the transfer of all assets (non-movable and movable) free of charge, previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the Lesotho Revenue Authority. These assets have been revalued by Lethola Cost Associate

5. Corporate governance issues

Corporate Governance:

In compliance with good corporate governance principles, the Authority has operated and maintained the following Board Committees: Audit Committee, Finance and Tender Committee, Human Resource and Ethics Committees which remained effective throughout the accounting period.

Social responsibility:

The Authority is totally committed to putting back into the community it serves. This is done through the implementation of its Corporate Social Responsibility programme.

Directors' report

6. *Board Members*

The Board Members are appointed by the Minister of Finance. The following members served on the board during the year under review:

Up to 30 June 2017

Lehlomela Mohapi (Mr) Chairman	
Motena Tsolo (Mrs)	FAC Chairman
Mamotselisi Khiba (Adv.)	ICTC Chairman
Lindiwe Sephomolo (Adv)	HRRC Chairman
Tsireletso Mojela (Mrs)	Member
Idia Penane (Mrs)	Commissioner General (a.i.)

From 1st November 2017:

Robert Likhang (Mr)	Chairman
Libako Leisanyane (Mrs)	Vice Chairman
Lefu Mokaoane (Mr)	FAC Chairman
Chabeli Ramolise (Mr)	ICTC Chairman
Bohlale Phakoe (Mr)	HRRC Chairman
Tsireletso Mojela (Mrs)	Member
Lindiwe Sephomolo (Adv)	Member
Thabo Khasipe (Mr)	Commissioner General

7. *Bankers*

The following financial institution was the banker of the Authority during the year:

Business address	**Postal address**
Standard Lesotho Bank	Lesotho Bank Building, Kingsway, Maseru
Nedbank	Head Office 115-117 Griffith Hill Kingsway Street P.O. Box 1001 Maseru 100
First National Bank	Pioneer Road Maser
Lesotho Post Bank	Post Office Building, Kingsway Road, Maseru, Lesotho

8. *Investment Managers*

The following financial institutions were the investment managers of the Authority during the year:

Business address

Stanlib Lesotho
Ground Floor,
MCG Office Park

9. *Business and postal address of the Authority*

Ground Floor, Government Complex
Maseru

10. *Auditors*

The auditors of the Authority are:

Moores Rowland on behalf of the Auditor General of Lesotho
Sentinel Park United Nations Road
P.O. Box 1252
Maseru 100
Lesotho

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 2018

Opinion

Moores Rowland Chartered Accountants under Section 24(1) of the Audit Act 2016, have audited the financial statements of Lesotho Revenue Authority (the Authority) set out on pages 42 to 63, which comprise the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in accordance with the requirements of the Lesotho Revenue Authority Act, 2001.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in Lesotho, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conjuncted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lliphafa

Lucy L. Liphafa (Mrs) **30 July 2018**
Auditor-General

OFFICE OF THE AUDITOR-GENERAL
AUDITOR GENERAL
3 0 JUL 2018
P.O. BOX 502
MASERU100, LESOTHO

Statement of financial position

as at 31 March 2018

	Notes	March 2018 M	March 2017 M
ASSETS			
Tangible assets			
Property, plant and equipment	2.1	226 818 352	250 441 879
Intangible assets			
Software	2.2	**62 493 366**	**83 568 445**
Current assets			
Accounts receivable	3	1 965 209	1 361 034
Bank and cash	4	93 437 998	43 122 558
Collections bank account balances	5	160 685 630	98 934 560
Total current assets		**256 088 837**	**143 418 152**
TOTAL ASSETS		**545 400 554**	**477 428 477**
CAPITAL AND LIABILITIES			
Capital and reserves			
GOL capital injection and project grants	6	254 603 749	301 797 896
Accumulated surplus/deficit		68 113 063	28 808 499
Trust account	7	2 508 309	2 160 584
Total capital and reserves		**325 225 121**	**332 766 979**
Non-current liabilities			
Provisions for terminal benefits	8.1	33 186 716	21 402 327
Payable to bank	9	5 690 869	5 551 668
		38 877 584	**26 953 995**
Current liabilities			
Provision for leave pay	8.2	3 540 504	3 300 935
Collections account balances remitable	5	160 685 630	98 934 560
Accounts payable and accruals	11	14 710 369	13 594 537
Payable to bank	10	2 361 ,346	1 877 471
Total current liabilities		**181 297 848**	**117 707 504**
TOTAL CAPITAL AND LIABILITIES		**545 400 554**	**477 428 477**

Statement of comprehensive income

for the year ended 31 March 2018

ASSETS	Notes	March 2018 M	March 2017 M
INCOME			
Government funding		379 390 643	338 623 163
Interest received		5 411 258	2 531 710
Tollgate fees Income		5 734 591	5 981 906
Storage income		514 957	158 946
Commission received		243 37	5 217 238
Other income		1 107 681	268 110
Amortisation project funds		32 789 550	8 307 296
Total income		**425 192 055**	**356 088 369**
EXPENDITURE			
Staff related expenses		239 682 829	233 750 284
Administration expenses		129 124 404	96 323 070
Inspection and enforcement expenses		8 456 686	3 864 470
Motor vehicle running costs		8 843 798	6 212 411
Total expenditure		**386 107 718**	**340 150 235**
Surplus/deficit for the year		**39 084 337**	**15 938 134**

Statement of changes in capital and reserves

for the year ended 31 March 2018

	Notes	Trust account M	GOL Project funding M	Accumulated surplus M	Total M
Balance as at 31 March 2015		**1 597 288**	**222 709 733**	**32 573 759**	**256 880 780**
Trust funds		231 419	0	0	231 419
Funds from government		0	36 300 000	0	36 300 000
Grants-project funding		0	28 647 102	0	28 647 102
Prior year adjustment		0	(1 396 332)	969 386	(426 946)
Current year armotisation		0	(3 865 026)	0	(3 865 026)
Deficit for the period		0	0	(27 076 329)	(27 076 329)
Balance as at 31 March 2016		**1 828 707**	**282 395 477**	**6 466 816**	**290 691 000**
Trust funds		331 878	0	0	331 878
Grants-Government		0	32 158 493	0	32 158 493
Prior year adjustment		0	0	6 403 549	6 403 549
Current year armotisation		0	(12 756 076)	0	(12 756 0 6)
Surplus for the period		0		15 938 134	15 938 134
Balance as at 31 March 2017		**2 160 584**	**301 797 895**	**28 808 499**	**332 766 978**
Trust funds		347 724	0	0	347 724
Grants-Government		0	(14 404 596)	0	(14 404 596)
Prior year adjustment	16	0	0	220 227	220 227
Current year armotisation	17	0	(32 789 550)	0	(32 789 550)
Surplus for the period		0	0	39 084 337	39 084 337
Balance as at 31 March 2018		**2 508 309**	**254 603 748**	**68 113 063**	**325 225 120**

Cash flow statement

for the year ended 31 March 2018

	Notes	March 2018 M	March 2017 M
Cash flows from operating activities			
Surplus/(Deficit) for the year		39 084 337	15 938 134
Adjustments for item not involving cash movement:			
Interest (received)/paid		(5 411 258)	(2 531 710)
Depreciation		38 274 906	15 627 702
(Decrease) increase in provisions		12 023 957	3 493 204
Prior year adjustments	16	220 227	6 403 550
(Gain)/loss on fixed asset disposal		(987 831)	(166 742)
Surplus /(Deficit) before changes in working capital		**83 204 338**	**38 764 137**
(Decrease)/ Increase in accounts receivable		(604 175)	29 304 471
(Decrease) Increase in accounts payable		1 115 832	(13 319 875)
Collections accounts		61 751 069	(16 128 257)
Net cash inflow from operating activities		**145 467 065**	**38 620 477**
Cash flows from investing activities			
Interest received		5 411 258	2 531 710
Purchase of property, plant and equipment		(8 069 737)	(65 678 349)
Movement from PPE to operating costs		14 464 389	254 659
Proceeds on disposal of assets		1 016 878	176 415
Net cash outflow from investing activities		**12 822 788**	**(62 715 565)**
Cash flows from financing activities			
GOL capital funding		(47 194 146)	45 746 582
Funds account		347 726	331 876
(Decrease)/Increase payable to loan		623 076	7 429 139
		(46 223 344)	**53 507 597**
Increase/(decrease) in cash and cash equivalents		112 066 508	24 875 292
Cash and cash equivalents at beginning of the year		142 057 119	117 181 826
Cash and cash equivalents at end of the period		**254 123 627**	**142 057 118**

Statement of accounting policies

for the year ended 31 March 2018

1.0 Business Activity

Lesotho Revenue Authority (LRA) is a semi-autonomous statutory body established by an Act of Parliament in terms of the Lesotho Revenue Authority Act No: 14 of 2001. LRA is charged with the mandate of a) assessing and collecting tax on behalf of the Government, and b) administering and enforcing the revenue laws, which include the Customs and Excise, Income Tax and Value Added Tax. The LRA therefore collects inland taxes, duties and excise on behalf of the Government of Lesotho and transfers the said to the GOL on a weekly basis.

1.1 Accounting policies

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

1.2 Basis of Preparation

1.2.1 Statement of compliance

The financial statements are consistent with International Financial Reporting standards (IFRS), as adopted by the International Accounting Standards Board and in compliance with the Lesotho Revenue Authority Act No: 14 of 2001.

1.2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

1.2.3 Functional and presentation currency

These financial statements are presented in Maloti, which is the authority's functional currency. All financial information presented in Maloti has been rounded to the nearest loti.

1.2.4 Use of estimates and Judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

1.2.4.1 Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following note:

- Note 11 -Plant and equipment (useful lives)
- Note 21 - Receivables impairment allowance

1.2.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the Authority's next financial statements are included in the notes.

1.2 Basis of Preparation *(continued)*

1.2.4.3 Measurement of fair value

A number of the Authority's accounting policies and disclosures requite the measurement of fair values, for both financial and non-financial assets and liabilities.

The Authority has established a control framework with respect to the measurement of fair values.

When measuring the fair value of an asset or a liability, the Authority uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level I quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2 Inputs other than quoted prices included under Level I that are observable for the asset or liability, either directly (i.e. As prices) or indirectly (i.e. Derived from prices).

Level 3 Inputs from assets and liabilities that are not based on observable market data (on-observable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Authority recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about assumptions made in measuring fair values is included in note 15.5.1

1.3 Adoption of standards in future financial periods

(a) New standards, amendments and interpretations which are relevant to the Authority's operations

- IFRS 16 - 'Leases effective 1 January 2019 and replaces IAS 17. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.

The new standard could have a material impact on the Authority's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The Authority has not yet quantified the potential impact of the new standard on the Authority.

- IFRS 15, 'Revenue recognition',effective 1 January 2018. IFRS 15 replaces IAS 18 Revenue and provides a single, principles based five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation.

The new standard could have a material impact on the Authority's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

Statement of accounting policies

for the year ended 31 March 2018

1.3 Adoption of standards in future financial periods *(continued)*

- IFR 9, 'Financial Instruments' effective 1 January 2018 replacing IAS 39. The standard requires financial assets The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.

The new standard could have a material impact on the Authority's financial statements. The Authority has not yet quantified the potential impact of the new standard on the Authority.

Management is currently assessing the impact of the application of these new standards, amendments and interpretations on the Authority's financial statements in the period of initial application. At this time, the adoption of these standards and interpretations is only expected to have an impact on the classification and disclosure of items in the Authority's financial statements.

(b) New standards, amendments and interpretations which are not relevant to the Authority's operations

- IFRS 11- 'Joint arrangements is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IAS 27 (revised 2011), 'Separate financial statements' IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Authority will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition - This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- Amendment to IFRS 1, 'First time adoption', on fixed dates and hyperinflation - These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

- Amendment to IAS 12, 'Income taxes' on deferred tax- IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Statement of accounting policies

for the year ended 31 March 2018

1.3 Adoption of standards in future financial periods *(continued)*

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income - The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

1.4 Property, plant and equipment

Owned assets recognition and measurement
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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income in profit or loss.

Subsequent expenditure
Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the Authority.

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

Rate of depreciating assets

The rates that assets are depreciated at on a monthly basis are as follows:-

Category **Tangible assets**	**Useful life** **(in years)**
Motor vehicles	5
Furniture and fittings	10
Office equipment	3 to 7
Specialised equipment	5
Security measures	5 to 10
Bins and containers	5
Emergency equipment	5 to 20
Buildings	50

The residual value, if not indignificant, is re-assessed on tangible assets

Category **Tangible assets**	**Useful life** **(in years)**
Software (ETPM and ASY CUDA)	5

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

Statement of accounting policies

for the year ended 31 March 2018

1.4 Property, plant and equipment *(continued)*

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

Impairment

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

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

1.5 Financial instruments

Non-derivative financial assets

The Authority initially recognises loans and receivable deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Authority is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the assets and settle the liability simultaneously.

The Authority has the following non-derivative financial assets:

Trade and other receivables.

Trade and other receivables are financial assets with fixed determinable payments that are not quoted on an active market. Such assets are recognised initially at fair value plus any directly attributed transactions costs. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management are included as part of cash and cash equivalents for the purposes of the statement of cash flows.

Non-derivative financial liabilities

Non-derivative financial liabilities are recognised initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Authority has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables, accruals and collection accounts at their nominal value.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

1.5 Financial instruments *(continued)*

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably measured.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount owing to the Authority on terms that the Authority would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Authority considers evidence of impairment for receivables at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Authority uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected as an allowance account against receivables. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

1.6 Income

Income comprises the fair value of the consideration received or receivable for services in the ordinary course of the Authority's activities.

The Authority recognises income when the amount of income can be reliably measured, it is probable that future economic benefits will flow to the Authority and specific criteria have been met for each of the Authority's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The Authority bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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.

1.7 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.

1.8 Finance income and finance costs

Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

1.9 Property, plant and equipment *(continued)*

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.

Long term employee benefits
The Authority is bound to two long term benefits:

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

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

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

1.10 Foreign currency

Foreign currency translation

Transactions in foreign currencies are translated to the functional currency at exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the exchange rate at that date.

The foreign currency differences arising on retranslation are recognised in profit or loss.

1.11 Border post refurbishment

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

1.12 Finance income and finance costs

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

Property, plant and equipment acquired from the proceeds of grants are depreciated in accordance with the Authority's property, plant and equipment accounting policy. Grants utilised to acquire property; plant and equipment are initially recognised as deferred grant and subsequently recognised in the statement of comprehensive income on a systematic and rational basis over the useful lives of the assets. Grants received to defray operating expenditure are recognised in the statement of comprehensive income when the expenditure has been incurred.

The Board Members have overall responsibility for the establishment and oversight of the Authority's risk management framework.

Statement of accounting policies

for the year ended 31 March 2018

1.13 Financial risk management

The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Members oversee how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority.

The Authority has exposure to the following risks from its use of financial instruments:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. LRA is exposed to credit related losses in the event of non-performance by counterparties to financial instruments as follows:

Cash and cash equivalents - all deposits and cash balances are placed with reputable financial institutions.

Staff debts are recovered in terms of the applicable policy and procedures directly from the employee's salary.

The Authority does not have significant credit risk exposure.

Liquidity risk
Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Authority manages its liquidity to ensure it is able to meet expenditure requirements. This is achieved through prudent liquidity risk management which includes maintaining sufficient cash resources. Since the Authority is funded through Government subvention, it does not regard the liquidity risk to be high.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk
Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates The Authority may utilise foreign currencies in its operations and consequently may be exposed to exchange rate fluctuations that have an impact on cash flows and financing activities However, at year-end there were no significant foreign currency exposures.

Interest rate risk
Financial Instruments that are sensitive to interest rate risk are bank balances and cash. A 1% increase in interest rates would result in an additional surplus for the year while a decrease in interest rates by a similar margin would result in an equal opposite effect.

1.14 Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Authority determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Authority the right to control the use of the underlying asset.

At inception or upon re-assessment of the arrangement, the Authority separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Authority concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Authority's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Authority substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Authority's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance element is allocated to each period during the lease tern so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

2. Property, plant and equipment

2.1 Tangible assets

Useful life (in years)	Owned assets	2018 Cost M	2018 Accumulated depreciation M	2018 Carrying amount M	2017 Cost M	2017 Accumulated depreciation M	2017 Carrying amount M
0	Land	60 496 390	–	60 496 390	60 496 390	–	60 496 390
5	Motor vehicles	11 998 545	(4 024 090)	7 974 455	13 070 641	(6 231 808)	6,838,833
10	Furniture and fittings	12 986 699	(10 156 510)	2 830 189	12 664 995	(9 375 240)	3 289 755
3 to 5	Office equipment	46 040 488	(35 983 438)	10 057 050	30 601 080	(29 729 604)	871 476
5	Specialised equipment	38 582 980	(17,893 776)	20 689 205	38 582 980	(10 948 839)	27 634 141
5 to 10	Security measures	1 301 484	(232 510)	1 068 974	211 048	(216 697)	(5 649)
50	Buildings	78 097 318	(59 121 549)	18 975 769	77 575 695	(58 183 860)	19 391 836
5	Bins and containers	544 779	(540 885)	3 894	544 779	(515 030)	29 750
5	Emergency equipment	5 136 396	(3 630 345)	1 506 051	3 167 295	(2 972 881)	194 414
	Managed assets						–
	Work-in-progress						–
	Border refurbishment	64 966 316	–	64 966 316	64 966 316	–	64 966 316
	EDRMS and data cleansing	35 218 103	–	35 218 103	64 789 721	–	64 789 721
	Scanners	–	–	-	0	–	0
	DCS customs	1 5 345	–	175 345	175 345	–	175 345
	LRA housing	157 237	–	157 237	157 237	–	157 237
	Assets work in progress	2 418 818	–	2 418 818	1 331 759	–	1 331 759
	Oracle upgrade	280 556	–	280 556	280 556	–	280 556
		358 401 453	**(131 583 102)**	**226 818 352**	**368 615 837**	**(118 173 958)**	**250 441 879**

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

				2018			
Useful life (in years)	**Owned assets**	**Carrying amount at 1/04/2017 M**	**Additions during the year M**	**Disposal/ reclassification during the year M**	**Depreciation for the year M**	**Movement between asset types M**	**Carrying amount at 31/03/2018 M**
0	Land	60 496 390	–	–	–	–	60 496 390
5	Motor vehicles	6 838 833	2 677 644	–	1 542 020	–	7 974 456
10	Furniture and fittings	3 289 755	39 501	–	781 269	282 203	2 830 189
3 to 7	Office equipment	871 476	2 359 27	229 047	6 294 782	13 150 128	10 057 048
5	Specialised equipment	27 634 141	0	–	6 944 937	0	20 689 204
10 to 20	Security measures	(5 649)	57 800	–	15 813	1 032 636	1,068 974
50	Buildings	19 391 836	20 036	–	937 690	501 587	18 975 768
5	Bins and containers	29 750	0	–	25 853	0	3 897
5	Emergency equipment	194 414	487 941	–	657 463	1 481 160	1 506 052
	Managed assets						
	Work-in-progress:						
	Border refurbishment	64 966 316	–	–	–	–	64 966 316
	EDRMS and data cleansing	64 789 721	8 726	–	–	(29 580 343)	35 218 104
	Scanners	0	0	–	–	–	0
	DCS customs	175 345	0	–	–	–	175 345
	LRA housing	157 237	0	–	–	–	157 237
	Assets work in progress	1 331 759	2 418 818	–	–	(1 331 759)	2 418 818
	Oracle upgrade	280 556	0	–	–	0	280 556
		250 441 879	**8 069 737**	**29 047**	**17 199 827**	**(14 464 389)**	**226 818 354**

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

Depreciation rates (%)	Owned assets	Carrying amount at 1/04/2016 M	Additions during the year M	2017 Disposal/ reclassification during the year M	Depreciation for the year M	Movement between asset types M	Carrying amount at 31/03/2017 M
0	Land	9 396 340	51 100 050	–	–	–	60 496 390
20	Motor vehicles	201 862	6 947 822	–	310 851	–	6,838,833
10	Furniture and fittings	4 109 823	–	–	820 068	282 203	3 289 755
14 to 35	Office equipment	2 946 369	2 647 663	9 673	5 796 250	13 997 163	871 476
20	Specialised equipment	33 970 535	608 542	–	6 944 936	–	27 634 141
10 to 20	Security measures	10 172	–	–	15 821	37 000	(5 649)
2	Buildings	20 331 608	–	–	939 773	501 587	19 391 836
20	Bins and containers	64 069	–	–	34 319	–	29 750
20	Emergency equipment	960 097	–	–	765 683	1 446 207	194 414
	Managed assets						
	Work-in-progress: Border						
	Refurbishment	64 955 182	11 134	–	–	–	64 966 316
	IRMS	167 133 736	3 031 378	–	–	(120 556 185)	64 789 721
	Scanners	–	0	–	–	–	–
	DCS customs	175 345	–	–	–	–	175 345
	LRA housing	157 237	–	–	–	–	157 237
	Assets work in progress	1 083 368	1 331 759	–	–	(1 083 368)	1 331 759
	Oracle upgrade	280 556	–	–	–	–	280 556
		306 030 959	**65 678 349**	**9 673**	**15 627 702**	**(105 375 393)**	**250 441 879**

2.2 Intangible assets

		2018			2017		
Useful life (in years)	Owned assets	Cost M	Accumulated depreciation M	Carrying amount M	Cost M	Accumulated depreciation M	Carrying amount M
5	Software (ETPM)	83 419 306	(33 367 722)	50 051 583	83 419 306	(16 683 861)	66 735 444
	Software (ASYCUDA)	21 956 087	(9 514 305)	12 441 783	21 956 087	(5 123 087)	16 833 000
		105 375 393	**(42 882 027)**	**62 493 366**	**105 375 393**	**(21 806 948)**	**83 568 445**

The carrying amounts of property, plant, and equipment can be reconciled as follows: 2018

Useful Life (in years)	Owned assets	Carrying amount at 1/4/2017 M	Additions during the year M	Disposal/ reclassification during the year M	Depreciation for the year M	Movement between Asset types M	Carrying amount at 31/03/2018 M
5	Software (ETPM)	66 735 444	–	–	16 683 861	–	50 051 583
	Software (ASYCUDA)	16 833 000	–	–	4 391 218	–	12 441 783
		83 568 445	**0**	**0**	**21 075 079**	**–**	**62 493 366**

The carrying amounts of property, plant, and equipment can be reconciled as follows: 2017

Depreciation rates (%)	amount at Owned assets	Carrying during the 1/4/2016 M	Additions reclassification year M	Disposal/ for the during the year M	Depreciation between year M	Movement amount at asset types M	Carrying 31/03/2017 M
0	Software (ETPM)	–	–	–	16 683 861	83 419 306	66 735 444
20	Software (ASYCUDA)	–	–	–	5 123 087	21 956 087	16 833 000
		–	**–**	**–**	**21 806 948**	**105 375 393**	**83 568 445**

NOTE

The prior year balances in the AFS were adjusted to reflect the comparatives as there were assets from the ETPM and ASYCUDA that were capitalised in the current financial year but relates to the 2016/2017 financial year.

Notes to the financial statements (continued

		March 2018 M	March 2017 M
3	**Accounts receivable**		
	Deposit	257 611	257 611
	Prepayments	1,189 532	678 377
	Accrued income	445 196	390 392
	Accrued interest	38 730	514
	Accounts receivable	27 240	27 240
	Other debtors	6 900	6 900
		1 965 209	**1 361 034**
4	**Bank and cash**		
	LRA operating account	123 336	310 743
	88 day deposit account - Nedbank	21 168 944	1 119 575
	Other short term deposits	66 287 764	37 826 723
	LRA call account	2 453 801	838 749
	LRA SARS account	0	433
	IRMS account	427 469	416 655
	Border refurbishment project account	373 932	375 601
	Cash on hand	94 445	73 495
	Mascon development fund	2 508 309	2 160 584
		93 437 998	**43 122 558**
5	**Collection accounts**		
	LRA refund account	26 185 647	9 332 236
	VAT call account	104 579	924
	VAT current account	14 576 599	2 213 981
	Income tax call account	1 270 242	1 605 257
	Income tax current account	2 765 302	5 031 665
	Income tax refund account	4 369 133	731 964
	Toll fees current account	4 237 944	3 097 003
		53 509 446	**22 013 030**
	SACU accounts		
	Current account	(198 583)	204 213
	Customs call account	107 374 768	76 717 318
		107 176 184	**76 921 531**
	Net balance	**160 685 630**	**98 934 560**

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

6 Government funding

The Memorandum of Understanding between the Government of Lesotho (Ministry of Finance) and the Lesotho Revenue Authority provided for the transfer of all assets (nonmovable and movable) free of charge , previously held by the Departments for Customs and Excise, Sales Tax and Income Tax to the LesothoRevenue Authority. These assets have been revalued by Lethola Cost Associate.

7 Trust account(Rental income Mascon)

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

8 Provision 2018

		Opening balance	Additions	Utilised during the year	Reversal during the year	Closing balance
		M	M	M	M	M
8.1	Gratuity	8 104 336	8 907 007	(892 883)	0	16 118 460
	Severance pay	13 297 991	9 777 288	(6 007 023)	0	17 068 256
	Total	**21 402 327**	**18 684 295**	**(6 899 907)**	**0**	**33 186 716**

		Opening balance	Additions	Utilised during the year	Reversal during the year	Closing balance
		M	M	M	M	M
8.2	Leave	3 300 935	6 324 020	(613 802)	(5 470 648)	3 540 504
	Total	**3 300 935**	**6 324 020**	**(613 802)**	**(5 470 648)**	**3 540 504**

Provision 2017

	Opening balance	Additions	Utilised during the year	Reversal during the year	Closing balance
	M	M	M	M	M
Gratuity	7 216 389	8 091 561	(7 203 614)	0	8 104 336
Severance pay	11 271 565	4 716 831	(2 690 405)	0	13 297 991
Total	**18 487 954**	**12 808 392**	**(9 894 019)**	**0**	**21 402 327**

	Opening balance	Additions	Utilised during the year	Reversal during the year	Closing balance
	M	M	M	M	M
Leave	2 722 104	36 045 958	(30 452 367)	(5 014 761)	3 300 935
Total	**2 722 104**	**36 045 958**	**(30 452 367)**	**(5 014 761)**	**3 300 935**

		March 2018	March 2017
		M	M
9	**Long term liability**	5 690 869	5 551 668
	Payable to bank	**5 690 869**	**5 551 668**
10	**Current loan liability**	2 361 346	1 877 471
	Payable to bank	**2 361 346**	**1 877 471**
11	**Accounts payable and accruals**	4 014 172	2 228 391
	Creditors	10 283 717	11 127 188
	Accruals	412 481	238 959
	Other creditors	**14 710 369**	**13 594 537**

12. Contingent liabilities

A number of companies and individuals have sued the Lesotho Revenue Authority over the last several years for various matters. Management has made an assessment of the possible liability as a result of these pending cases. The total exposure has been estimated at M 3.8million.

13 Surplus/(deficit) for the year	**March 2018 M**	**March 2017 M**
Surplus for the period is stated after charging the following:		
Depreciation	17 199 827	11 090 485
Board fees and expenses	1 217 425	1 156 831
Auditors' remuneration	347 540	327 250
	18 764 791	**12 574 566**

14 *Material related party transactions*

	March 2018 M	**March 2017 M**
Operating funding/subvention	379 390 643	338 623 163
Board fees and expenses	1 217 425	1 156 831
	380 608 068	**339 779 994**

15. Financial instruments

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

15.1 Currency risk

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

15.2 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.

15.3 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.

15.4 Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of any netting agreements:

	Carrying amount M	Contractual cash flows M	Within 1 year M	Between 2 and 5 years M
Financial liabilities:				
Borrowings	8 052 215	2 361346	2 361 346	5 690 869
Trade and other payables	178 936 503	178 936 503	178 936 503	–
	186 988 718	**181 297 849**	**181 297 849**	**5 690 869**
31 March 2017				
Financial liabilities:				
Borrowings	–	–	–	–
Trade and other payables				
	115 830 033	115 830 033	115 830 033	–
	115 839 033	**115 83 033**	**115 830 033**	**–**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at a significantly different amount.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018 M	2017 M
Loans and receivables	1 965 209	1 361 034
Cash and cash equivalents	254 123628	142 057 118
	143 418 152	**143 418 152**

15.5 Fair values

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

The fair value of financial assets and financial liabilities together with the carrying amounts shown in the statement of financial position, are as follows:

	Loans and receivables M	Other financial liabilities M	Total carrying amount M	Fair value M
Financial liabilities				
Trade and other payables	115 830 033	–	115 830 033	115 830 033
B0rrowing	8 052 215	–	8 052 215	8 052 215
	123 882 248	**–**	**123 882 248**	**123 882 248**
Financial assets				
Trade and other receivables	1 965 209	–	1 965 209	1 965 209
Cash and cash equivalent	254 123 628	–	254 123 628	254 123 628
	256 088 837	**–**	**256 088 837**	**56 088 837**

16 Prior year adjustments M 220 227

These adjustments were for transactions that relate to 2016/17 and earlier financial years but materialised in the current period under review as follows

- Debt recovery costs recovered from clients M 269 257
- Payroll refunds M 4 639
- Correction of bank charges for the previous year (M 35 532)
- Payroll adjustments (M 18 137)

17 Grants amortised

During the periods 2014/15 and 2015/16 the government funded two projects namely ETPM and ASYCUDA and the monies received were capitalised as capital injection/grants and after the completion of the projects the amount needed to be amortised over the useful lives of the assets and below is the current year charge

Category	M
Amortisation charge monthly (April 2017-March 2018)	32 789 550
Total	**32 789 550**

The Chairperson of the LRA Board, Mr. Robert Likhang (left); Mr. Chabeli Ramolise, Board Member and the Minister of Water, Hon. Samonyane Ntsekele during the Official Launch of the 2018-23 LRA Strategy.

The Minister of Small Business Development, Cooperatives and Marketing, Honourable Chalane Phori on a tour of Maseru Borderpost to familiarize himself with border operations.

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